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ABSTRACT

An analysis of the current literature presents a mixed picture of the financial crises affecting colleges and universities all over the country. This report presents an overview of the way in which this financial situation appears to have developed and the variety of suggested solutions. Sources of income for an institution are reviewed and ways of increasing these sources are discussed. Further, the report discusses categories of expenditures and what institutions have attempted to do in becoming more efficient through instituting economies. Finally, the report turns to general issues of policy as these relate to both income and expenditures, and notes what several national commissions have suggested as possible approaches to dealing with the situation. (Author/JMF)

TRENDS IN HIGHER EDUCATION IN THE UNITED STATES

NO. 5 FINANCING THE PROGRAM
(A Review of Recent Literature)

A Report to
The Commission on the Future

THE LUTHERAN EDUCATIONAL CONFERENCE OF NORTH AMERICA

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March, 1975

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Preface

This is one of six monographs written during the period covering the latter half of 1974 and the first months of 1975 and that review developments in American higher education through the mid-1970s. The sources have been articles and books published in large part between 1964 and 1975. Writing during this period has been voluminous, augmented in the last five years by the many reports, staff studies and other project prompted by, or related to, the work of the Carnegie Commission on Higher Education. The output has been so great that it is difficult for the college administrator, much less a faculty member involved in his own discipline, to view the literature in any broad perspective.

When the Lutheran Education Conference of North America established its Commission on the Future in 1972, it developed a series of proposals for projects that would result in documents useful for planning among the colleges related to the Lutheran Church. One of the resources requested by the Commission on the Future was an overview of the current status of higher education in the United States as that was reflected in the contemporary literature. In addition, the Commission requested that this overview be particularly directed to the implications for planning for the Lutheran colleges.

In early 1974 I was asked to undertake this particular phase of the work of the Commission. After the Commission approved a preliminary outline, and after I had completed certain other commitments, including meetings in Germany and Switzerland in June, 1974, I turned to the development of these monographs. I had considered assembling the materials in a single and fairly brief report. As the writing progressed, however, it became obvious that I would not be able to complete the work, at least to my satisfaction, in a single document. After making several revisions in the format, I decided on six monographs, five of which would deal with general topics, and the sixth of which would focus upon the colleges related to the

Lutheran Educational Conference of North America. The Commission on the Future reviewed drafts of four of the monographs in October, 1974 and approved the continuation of the work.

The six monographs are being issued under the general title of Trends in American Higher Education: A Review of Recent Literature. The titles of the six monographs are:

No. 1 Trends in American Higher Education: A Review of Recent Literature--Enrollments

No. 2 Trends in American Higher Education: A Review of Recent Literature--Students in the 70s

No. 3 Trends in American Higher Education: A Review of Recent Literature--Governance (Organization and Administration)

No. 4 Trends in American Higher Education: A Review of Recent Literature--Instructional Programs

No. 5 Trends in American Higher Education: A Review of Recent Literature--Financing the Program

No. 6 Trends in American Higher Education: A Review of Recent Literature--Implications for the Predominantly Undergraduate Church-Related Institution

The monographs, while each of them is fairly lengthy, do not pretend to present an exhaustive analysis of all of the literature that has been produced. The selection of books and articles from which the material is drawn was arbitrary. These are the items considered by the author to be of significance and that were readily accessible to him and that would appear to be readily accessible to those who would be using the monographs. Each monograph provides a substantial cross-section of the writing and opinion on each of the topics. The sixth monograph draws upon the preceding five monographs and attempts to outline specific implications for planning for predominantly undergraduate church-related institutions. It will be noted that, and this is particularly the case for the most recent information, the monographs draw heavily upon the Chronicle of Higher Education. The Chronicle provides the most up-to-date references on the items covered; some of the references are taken from issues in December 1974 and January 1975.

--Allan O. Pfnister
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January 1975

The Emergence of the Crisis

The release in the latter part of 1970 of Earl Cheit's report on the study of financial conditions of 41 colleges and universities, in which it was estimated that over 60 percent of the colleges and universities in the United States were headed for financial trouble or were already in financial difficulty, seemed to confirm what a number of other observers had already noted. The title of the report in its published form, "The New Depression in Higher Education," became a new password. Just emerging from half a decade of disruption that had culminated in Kent State in May, 1970, higher educational institutions seemed to be moving from one kind of crisis period into another. The new crisis was a financial one.

Many observers were convinced that higher educational institutions were already well into the new depression. Clark Kerr stated in the forward to the Cheit study:

> The decade of the 1960s was characterized by the most rapid growth and development of institutions of higher education in American history....But toward the end of the 1960s, signs of financial stress began to be apparent in the world of higher education and by 1970 increasing numbers of institutions were facing financial difficulties as the flow of funds from various sources ceased to rise at the rapid rate that had been experienced from the late 1950s to about 1967.[1]

He suggested that there was a "clear connection between the extraordinary growth of the first seven years of the decade and the financial stringency that began to emerge toward the end of the decade." With the increase in enrollment, institutions had also increased the quality and variety of course offerings, had expanded special programs, had increased the proportion of graduate students. All of these developments added cost, and these, plus growing rates of inflation, contributed to sharp increases in the cost per student.

Cheit's study was of 41 institutions, but considering these on a weighted basis, and as representatives of higher educational institutions nationally, it was projected that 19 percent of all colleges and universities were in financial difficulty and an additional 42 percent were on the way to financial trouble. Only 39 percent appeared at that point not to be in financial trouble. On the basis of the study, it was inferred that private institutions were more likely to be in financial difficulty in the spring of 1970 than were public institutions, that universities, when compared to other types of institutions, were even more likely to be in financial difficulties. Comprehensive public colleges and two-year colleges were least likely to be in financial difficulty.

Earlier that year, in May, 1970, Business Week ran a three-page story on the financial crisis on the campus, and referring to efforts of two small colleges to avoid disaster went on to say:

> Such incidents, obscured by the daily barrage of headlines about campus unrest, signal a financial crisis in higher education that is taking on alarming dimensions. "One half of all private liberal arts colleges in the nation are now drawing on their endowments in one way or another to meet operating expenses," estimates John Talmadge, Executive Associate of the 900-member Assn. of American Colleges. "The number which have gone into the red has increased perhaps fifty-fold in the past five years." And to Robert Carr, President of Oberlin College, which has accumulated a deficit of $400,000 since 1966, "the future looks grave indeed."[2]

The story goes on to refer to the closing of a number of schools and indicates that the problem was facing not only the smaller schools but also larger institutions such as Case Western Reserve, Yale, Columbia, Georgetown, New York University, and the University of Pennsylvania. The article suggested that inflation accounted for a good part of the financial pressure, but also pointed out that the decline in federal support was a significant element.

But the problem was not exclusively that of the private institutions. In a report of the National Association of State Universities and Land-Grant Colleges prepared in July, 1971, and reprinted in part in a publication of the Education Commission of the States, it was noted that 12 public universities had finished the 1970-71 academic year in the red.

> Five years ago there was not a single public university in the country with an operating funds' deficit. Last year there were 12 that ended the academic year in the red, and 11 universities were already predicting that they will finish this year with more expenses than they have funds to meet.
>
> The trend began during the 1966-67 academic year when the University of Nebraska joined Cornell University, one of the two private university members of the National Association of State Universities and Land-Grant Colleges, in reporting an operating deficit for the year. Cornell has experienced a deficit every year since 1965-66. In 1967-68 the deficit trend continued with the University of Rhode Island joining Cornell in experiencing a shortage of funds.[3]

The article went on to note that the significant decline began in 1968-69, and predicted a continuing growth in the number facing such difficulties. As institutions withdrew monies from general funds and savings to cover the deficits, since some public universities are prohibited by state law to run deficits, most of the working capital had been depleted. The result could only lead to demanding more funds from the states and instituting sharp economy measures. Economy measures already undertaken, in order of frequency, were deferment of maintenance, eliminatic of new programs and faculty freezes and cutbacks. The article pointed to increasing enrollments and rising inflation as the two main factors causing the problem; legislative grants simply were not keeping up with the needs.

Virginia Smith referred to an article in Fortune magazine in October of 1967 as one of the early warnings of the distress to come.[4] The Fortune report had been based upon financial forecasts from 20 private institutions, and it was estimated that the deficits of these institutions would be $3,000,000 by the spring of 1968 and a decade later could climb to $110,000,000. Smith suggested that one of the reasons for appointing the Carnegie Commission on Higher Education in 1967 was a growing concern over college and university financing.

> The period from 1957 to 1967 was American higher education's golden decade, at least in financial terms. During that time, expenditures in the nation's colleges and universities rose from $5 billion to $15 billion, a 300 percent increase. In the same period, estimated enrollment rose from 2.5 million to 5.5 million, a 220 percent increase. But growth and revenue had not kept pace with rising costs. The late 1960s brought increased evidence that higher education was in a state of financial distress far more drastic than the usual institution problem of making ends meet.[5]

She goes on to note that by the end of 1970 the evidence was clear that public as well as private institutions were facing financial pressures; many institutions, were delaying new programs, cutting back existing ones, postponing salary increases and simply not filling vacant positions.

Earlier, commenting on the report prepared by William Bowen for the Carnegie Commission, the Chronicle of Higher Education in a story headlined "Retrenchment Seen Facing Many Private Universities," noted that in the face of growing economic pressures many of the major private universities in the country may find it impossible "to continue to meet their current responsibilities let alone to develop in step with national needs."[6] The story pointed out that while instructional costs had been increasing at the rate of 7.5 percent per year, productivity had not increased in a similar way. Summing up the difficulty faced by private institutions, the article referred to cutbacks from foundations in supporting higher education, a decline in the ratio of gifts to income, competition for funds, diminishing returns from fund raising activities, changing composition of the student body.

Turning directly to Bowen's report, one finds ample documentation for the growing instructional cost. Bowen was able to show that the direct instructional cost per student over the period of 1955-56 to 1965-66 had reached 8.3 percent per year for the private universities he examined. He attributed the rising unit cost to the increased responsibilities of the university and the rising costs of educational technology. He referred to some significant operating deficits reported in the last academic year for which he had data, and suggested that many other universities had avoided deficits only by declining to undertake financial commitments for which there was a serious need. In this sense, there appeared to have been "educational deficits" far in excess of the reported financial deficits.

> To be sure, no major university has had to close down, and not even the most pessimistic observer would forecast the demise of any of these institutions within the foreseeable future. But survival in some form or other is hardly the test of well-being. The danger is not that the major private universities will disappear, but that they will be unable to continue to meet their current responsibilities, let alone to develop in step with national needs.[7]

Public institutions also were facing problems. Reporting in October, 1969, M.M. Chambers noted that state appropriation of tax funds for higher educational institutions had increased by more than 337 percent over the decade ending with 1969-70. He indicated, however, that a closer review of the figure indicated "increasing signs of and causes for disquiet and apprehension about the future support of public higher education," and he continued by saying that "while state tax support continues to rise in actual dollars appropriated, it continues to decline as a percentage of total income at most universities."[8] It was further pointed out that among the state universities and land-grant colleges, tuition and fees had increased by an average of 16.5 percent during the year to compensate for lack of funds from the state legislatures.

By January, 1970, the picture seemed even gloomier. A lead story in the Chronicle referred to a large private university being forced to phase out six Ph.D. programs, a private college running deficits totaling $959,000 over four years, another institution in which 91 students had to drop out because there was not enough money to give them financial aid, another institution approving the largest tuition increase in its history because of rising costs and shrinking support, and still another suspending a project to help 200 high school students from deprived backgrounds to get ready for college because federal funds were not available.

Many of the difficulties were attributed to significant reductions in federal support. It was not that federal support had been withdrawn, but the rate of increase was slowing to the point where it was not keeping pace with the rising costs.

> Some federal programs have been severely curtailed or eliminated in this era of 'tight budgets.' Other sources of support have not been adequate to pick up the slack in academic budgets... college and university officials are perhaps most concerned about erosion of their endowments. Continuing deficits force them to use up their endowment capital for current operating expenses.[9]

It was further noted that while there was no statistical picture showing the erosion of the financial position of private universities, there seemed little doubt that such an erosion was underway. The public colleges were also curtailing programs because of cutbacks. Reference was also made to "huge tuition hikes" made at the University of Wisconsin, and the three land-grant institutions in Florida, Indiana University, Purdue, Iowa State University, the University of Iowa, and the University of Maryland.

Testifying before the House Special Subcommittee on Education in March, 1970 Clark Kerr, Chairman of the Carnegie Commission on Higher Education, said that the financial squeeze on higher education was probably having its greatest impact on the large research universities and the small liberal arts colleges.[10] During the year Congress and the White House continued to battle over the amount and kind of support that the federal government would provide for higher education.

In the meantime, private giving apparently was on the increase. Reporting on private gifts to U.S. colleges and universities during 1968-69, the Council for Financial Aid to Education and the American Alumni Council noted that U.S. colleges and universities received a record 1.8 billion in private gifts during the year, and that this represented the largest gain since 1964-65. Two years earlier, during 1966, there had been a decline of 1.2 percent in giving. However, the 1968-69 increase was largely for capital purposes, and unrestricted gifts declined significantly. Support from religious denominations showed a sharp decline in 1968-69.[11]

1970-71.--At the beginning of the academic year 1970-71 the financial crisis appeared to be deepening. John A. Crowl wrote, "The financial crisis that people in higher education have been talking about for years may finally have arrived."[12] He reported that several small colleges had closed their doors and that others were reporting severe problems. A president of a state university noted that financing was going to be the most serious problem, even more serious than student dissent, that higher education would face in the 1970s. It was reported that Princeton University's deficit for the most recent fiscal year was $600,000 and the University was projecting a deficit of more than $2,000,000 for the current fiscal year. A small college in Missouri was offering to rename the institution after anyone who would give it $5,000,000. Columbia University was predicting a $15,000,000 deficit, and St. Louis University was closing its school of dentistry and phasing out its engineering program. The land-grant colleges were continuing to increase their charges. Crowl summarizes, "Put in its simplest terms, the problem facing most colleges today is this: At a time when the costs of operating a college are rising dramatically and rapidly, traditional sources of income, although increasing, are climbing rather slowly."[13] Inflation was referred to as one of the chief causes of the problems, but along with that was the increase in building costs and the increased costs in equipment and supplies. It was reported that 21 institutions had closed in the course of the past year.

As the year wore on, M.M. Chambers reported that in spite of an increase of nearly $1,000,000 in funds to state institutions in 1970-71, it appeared that a growing number of public colleges and universities would be forced to curtail programs and services. Even though the gains in appropriations were impressive they were not able to keep up with increased demands, costs and inflation. The National

Association of State Universities and Land-Grant Colleges said that, "Austerity operations are becoming a fact of life for a growing number of institutions."[14]

The new year of 1971 was greeted with more gloomy reports. At the meeting of the Association of American Colleges, a report of a study of 500 colleges and universities indicated that the average private institution went from a small operating surplus in 1967-68 to a small deficit in 1968-69, that the deficit multiplied by a factor of five by 1969-70 and that it was expected to be even larger by 1970-71. It was estimated that the total deficit experienced by the private higher educational institutions over the four-year period was nearly $370,000,000. The researcher, William W. Jellema, reported that "most colleges in the red are staying in the red and many are getting redder, while colleges in the black are generally growing grayer."[15] He stated that the most common response to the deficit was to borrow, either from lending institutions or from their own current funds. About one-fourth of the 554 institutions surveyed indicated that they were spending unrestricted endowment principle. Other actions to meet the deficits included raising tuition, increasing fund-raising activities, deferring maintenance, retrenching expenditures, transferring funds from other reserves, spending principle of funds functioning as endowment, reducing depreciation loans, spending appreciation on endowment funds. One of the significant factors contributing to the poor financial condition of the private colleges was the increasing amount of money the institutions were spending on student aid. As tuition goes up, more students needed more aid.

In response to the tightening financial situation, colleges began cutting budgets and effecting economies wherever possible. As the budget-making began for 1971-72, colleges were cutting expenditures in the current year and allowing smaller increases in spending for the coming year. John Crowl reported in February, 1971, that expenditures at some institutions would be smaller in 1971-72 than during the

1970-71 year, in spite of continuing inflation. He quoted the president of Bowdoin College who contended that the financial situation was "growing worse rather than better" and that colleges were being forced "to reexamine their entire program."[16] New aid from federal and state governments, hoped for by many, was not forthcoming. The task became that of "trying to pare expenditures as much as possible without sacrificing academic quality or institutional morale."[17] Crowl noted that virtually all of the colleges had announced budget cuts. Princeton University, for example, was recommending expenditures of nearly $1,000,000 less for 1971-72 than for 1970-71 and was also calling for a tuition increase. The University of Maryland announced no faculty or staff vacancies to be filled for the remainder of the current year. Michigan State University had asked its administrative units to cut their budgets 1.5 percent in the current year. Canadian institutions were facing deficits as well, and McGill University in Montreal, anticipating an $8,300,000 deficit in 1971-72 and an even larger deficit in the following year, was making plans to cut $3,500,000 from its budget. Stanford University, which earlier had planned to cut by $2,500,000 over a four-year period had revised its goal to cut $6,000,000 over a five-year period.

A week after the Chronicle summary appeared, in the meeting of the American Association of State Colleges and Universities, the President of the Association suggested that concern with "fiscal bankruptcy" had replaced student unrest as the top worry of the state college presidents. He said that the group was predicting "a financial crisis that is rapidly worsening for public as well as private colleges and universities."[18]

The news continued to worsen, and in assessing the trends among the legislatures holding regular sessions in 1971, John Crowl noted that the legislatures intended to keep a close watch on how money would be appropriated. In a survey of 33 state boards, all but four indicated that financing would be the most serious problem facing the legislatures that year.[19] Signs of the time included a bill introduced in the Illinois legislature to require public institutions to report to the state government all income other than state funds, consideration in the Iowa legislature of a measure that would forbid the Board of Regents to grant paid sabbatical leaves to faculty members and the move in Indiana, one of the few states at that time without a state coordinating agency, to establish one. It was also reported that 11 states were considering some form of reorganization of the state system of public higher education. The chancellor of the community college system in California said that those institutions were facing their worst financial crisis since the Depression

In the latter part of February, 1971, in the annual report of the Carnegie Corporation, Alan Pifer said that the financial problems of private institutions could well be the first stage in a progressively worsening situation ending in their demise.[20]

Then, to make matters worse, the report of the Council for Financial Aid to Education in April, 1971, reported that private gifts to U.S. colleges and universities showed a dollar decrease for the first time in more than a decade. The reporting was for 1969-70, and revealed an income $20,000,000 less than for 1968-69. This decline was compared with a 15 percent gain in the previous year. However, support for current operations had increased and the support for capital purposes had decreased somewhat.[21]

As the year continued, there were differences of opinion regarding the nature of the financial crisis. In testifying before a Congressional committee, Alice M. Rivlin, a Senior Fellow at Brookings Institution and former Assistant Secretary for Planning and Evaluation in the Department of Health, Education, and Welfare, argued that there was no <u>general</u> crisis of higher education finance. She said, "rather, there are several sets of factors affecting various kinds of institutions in various ways at the same time, some permanent and some temporary."[22] At about the same time, the Association of Governing Boards of Universities and Colleges was meeting in Cincinnati, Ohio. The group seemed to have no doubt but that there was a financial crisis, and speakers at the meeting called for sweeping academic reforms. It was even suggested by one speaker that the financial pressures might lead to reforms and efficiencies that would be to the ultimate good of education.[23]

By July, 1971, the National Association of State Universities and Land-Grant Colleges reported from its March-April survey that 41 of the 76 public institutions responding to the survey had failed to increase their budgets by 10 percent.[24] That same week the 39 new presidents participating in the Annual Presidents' Institute of the American Council on Education reported they were more worried about money and less worried about student unrest than had been the case among previous participants in the annual conference.

1971-72.--The academic year 1971-72 began on the gloomy note that more than 100 private colleges and universities were facing fiscal disaster. The report came out of a follow-up of a survey conducted in 1970. The director of the survey, William W. Jellema found that in the estimates for 1970-71, the average private college had underestimated its 1969-70 deficit by nearly 25 percent. Moreover, the average deficit for 1970-71 was nearly eight times larger than two years earlier. If such deficits were to continue, nearly half of the nation's private colleges and universities would be bankrupt within ten years.[25] Jellema had asked the colleges during the summer of 1971 to provide him with actual 1969-70 figures and to update the 1970-71 projections. He found that the average private institution, which at an earlier date had estimated that its 1969-70 deficit would be $104,000 actually incurred a $131,000 loss. And, whereas earlier the colleges had projected a deficit of $120,000 for 1970-71, they were now projecting an average deficit of $158,000. Jellema estimated that 122 of the 507 colleges surveyed had exhausted their liquid assets and had no usable reserve funds to draw upon to cover future deficits.

As the year continued, there were reports that dismissals of tenured faculty members were becoming more common in budget-cutting. A report by the Association of American Colleges found seven of 54 liberal arts colleges replying to a survey indicating that they had already been forced to terminate at least one tenured faculty member in an effort to save money. Several other institutions were anticipating similar action.[26] In November the Council for Financial Aid to Education reported that contributions to education by U.S. business corporations had decreased in 1970 for the first time in 12 years. The actual dollar decrease was on the order of 9.3 percent.[27]

Early in 1972 it appeared that a turnaround was occurring. The Council on Financial Aid to Education reported that in 1970-71 private gifts to U.S. colleges and universities, after experiencing the decline in the previous year, had again increased and had reached a record high. Major cause for the increase was the giving of alumni and "non-alumni individuals." Income from these groups compensated for the decrease in contributions by corporations, foundations, religious denominations and miscellaneous donors.[28]

1972-73.--As the 1972-73 academic year got underway, the annual survey of state spending on higher education reported by M.M. Chambers indicated that the rate in growth of state support had decreased with the appropriations for 1972-73. While appropriations overall increased, the rate of increase was considerably less than for a previous two-year span.[29]

By December, 1972, one writer was suggesting that the financial crisis was easing. Robert L. Jacobson reported that, "for the first time since higher education's financial problems reached the 'crisis' stage several years ago, a sizeable number of private colleges and universities have begun to reports signs of recovery."[30] He wrote that in a number of cases operating deficits had declined or disappeared, that alumni contributions were up and that the institutions, according to their own estimate, had become more skillful in managing their financial affairs. A number of those interviewed suggested that the main factor was that institutions were beginning to apply more effective management procedures. An example given was Syracuse University which had a deficit of over $500,000 the previous year and deficits of $1,000,000 each during two prior to that. The University imposed a moratorium on salary increases, froze budgets in some departments and cut budgets in others. Now, Syracuse reported that it expected to raise salaries by about five percent in January and to finish the academic year without a deficit. In addition to claiming better management, the college said that enrollments were up and that tuition had been increased. In the meantime, the National Commission on the Financing of Postsecondary Education, appointed in 1972, was underway.

In April, 1973, Earl Cheit who had coined the term "the new depression in higher education" made a second report. This report was based on a detailed follow-up of the same 41 institutions on which he had reported in 1971. He found that by increasing their use of cost-control measures, the majority of the 41 had managed to escape or avoid serious financial trouble in the intervening period. As a matter of fact, 26 of the 41 institutions regarded the current financial situation to be the same or better than it was two years earlier. However, 18 of the 41 institutions expected the situation to deteriorate if the present trends continued over the next three years.[31]

The Council for Financial Aid to Education reported another record year for 1970-71. Whereas in the previous year it was the increases in alumni and other individual gifts that accounted for the growth in contributions, it was a major increase in contributions by foundations that made the difference for 1970-71. Also, there were significant increases from business corporations as well as continuing increases from alumni and other individuals.[32]

1973-74.--With the beginning of academic year 1973-74, optimism seemed to be increasing. Reporting in September, 1973, Beverly T. Watkins found a "cautious optimism and cautious pessimism" characterizing "the financial mood of the nation's colleges and universities as academic year 1973-74 gets underway."[33] She found that many of the private colleges were showing signs of recovery, although some were hesitant in saying that the long-term picture was as bright. On the other hand, the number of public colleges confronting serious financial problems appeared to be on the rise. The American Association of State Colleges and Universities was reporting that the proportion of institutions in its membership experiencing critical and severe financial problems was on the rise.

By October, 1973, Bloomfield College, a private college that sought to restore stability by cutting faculty and abolishing tenure was in the midst of a battle which subsequently led to the closing of the institution and placing it in a receivership for bankruptcy. Southern Illinois University gained national attention when in January, 1974, it terminated the employment of 104 faculty and staff members in order to reduce budgets. With the advent of the energy crisis, colleges and universities in the early months of 1974 were faced with sharp increases in heating costs. The financial crisis was far from over.

In February, 1974, the American Council on Education was arguing that in spite of serious and wide-spread financial difficulties among colleges and universities, the future was much more positive. The analysis was presented by Carol Van Alstyne, and contended that tuition revenues would continue to grow, that state support was increasing, that corporate profits were up, foundation support was beginning to increase again and that federal support was increasing at a rate faster than any other time in the last five years.[34]

Once again, private giving to the support of higher education increased. In reporting for 1972-73, the Council for Financial Aid to Education found another record year. This time the major course of the increase was gifts by individuals and parents of students. The increase overall from the previous year, 1971-72, was 8.7 percent.[35]

But earlier in the year, a study by the University of Michigan's Center for the Study of Higher Education suggested that inflation may be obscuring the true condition of financially troubled colleges. The study was of 48 private colleges over a period between 1964 and 1973. It was found that the spending per student increased from $1,849 per student in 1964 to $3,282 in 1973, a rise of 77 percent in nine years. Applying a correction factor for inflation, however, it was found that the actual spending per student had increased only ten percent over the nine-year period and that during the past two years it had actually declined slightly, from $2,075 to $2,036. The study suggested an even greater decline in spending in terms of uninflated dollars per student. On the other hand, the number of colleges operating in a deficit within the study had decreased between 1972 and 1973.[36]

In May, 1974, the President of Georgetown University was cautioning that Phase II of the financial crunch for private higher education was just around the corner. He was convinced that in Phase II more private institutions would disappear. The problem, as he saw it, was that during the first phase of the financial crisis budgets had been reduced drastically and tuitions had gone up. In the next round, neither possibility may be open to private institutions.[37]

In June, 1974, we began to read announcements about the way in which funds were again shrinking. A report from the National Center for Educational Statistics suggested that endowment funds of the nation's colleges and universities had shrunk by 1.1 percent during fiscal year 1973.[38] In November, 1974, Sidney P. Marland, now president of the College Entrance Examination Board, predicted that student financial funds for higher education from federal, state, and private resources would probably be two billion dollars less than needed for the 1975-76 academic year.[39] And during the fall of 1974 foundations were reporting cutbacks in their funding.

In November, 1974, it was noted that more and more U.S. universities were making contacts overseas in their search for funds.[40] In the meantime, states were reported raising their contributions to higher education. Karen Winkler in November, 1974 reported an increase in student aid of 25 percent, the largest increase in history. It was noted that a decade ago only 12 states provided student assistance programs but that now 22 have such programs underway.[41]

1974-75.--The situation in late 1974 is mixed. For some private colleges, a combination of increased tuition and wide-ranging economies seems to have restored a measure of fiscal stability to the enterprise. Others are still accumulating debts at a frightening rate, and the sound of closing doors continues. Some observers are convinced that the combination of increased tuition and cost-cutting budgeting has reached something of a logical limit; there are few places left to cut without impairing quality, and tuitions may have reached the upper limits. Others are convinced that neither is the case, and that there are in addition other untapped sources of income.

Among tax-supported institutions the picture is also mixed. In some, enrollment pressures continue, and appropriations, according to the institutions, do not keep up with the costs. Heavily dependent upon the appropriations, these institutions find that for every student not covered with increased funds that meet the increased cost of education, other cutbacks are required. Still other institutions have experienced drastic declines in enrollment. Four-year public colleges have been the hardest hit with the recent shift in enrollment patterns; these colleges are being forced to reduce staffs and services. An earlier monograph in this series reports on the implications of recent changes in enrollment patterns. But perhaps Edward Witkowski states the situation as well as it can be summarized:

> Higher education now finds itself caught between declining enrollment on the one hand, and increasing demands for new and varied services on the other. Declining enrollments have had a number of immediate effects. First, in those schools, most notably state-supported, where allocations are tied directly to FTE enrollment, faculty and staff must be reduced to compensate for fewer students. Not only does this reduction and the threat of further reduction in staff reduce the abilities of the faculty to specialize in its teaching and perform non-teaching duties such as research and community service, it also changes the whole gestalt of the university. Faculty members who once worked together in a spirit of community now occupy their time speculating on the effects of cuts at the institution, their department, and themselves. Hard decisions on hiring and firing produce an atmosphere which is scholastically counterproductive. Competition rather than cooperation is now the watchword.[42]

He suggests that in addition to the effect it has on staff size and morale, the decline in enrollments limits the ability of higher educational institutions to carry on innovations.

In this mixed picture, one is tempted to go back to an earlier statement made by Alice Rivlin, namely that the crisis as such is not a single crisis but represents a variety of happenings and pressures affecting different institutions in quite different ways.[43] There seems to be no simple way of describing either the nature of the financial pressure or the reaction of institutions. Yet, financing, or the lack of it, comes to be a major topic of discussion among college and university administrators and faculty at almost every professional gathering. Faculty, facing tightening tenure regulations, deans being asked to reduce budgets or to live without increasing them, presidents seeking additional funds, all of these, and more, are convinced that however it is described or whatever the terms, a financial crunch is a fact of life.

We have tried to present an overview of the way in which the financial crisis appears to have developed. It is faint comfort, however, to record the grim details. What is of concern to so many persons in and outside of higher education is, what is to be done about the situation. But, anyone expecting a simple and all-embracing response is doomed to disappointment. We can only report what some writers and some institutions have discovered about the situation and suggest how they are dealing with it. The rest of this report will deal with these kinds of statements. We begin with a review of sources of income and ask as to whether there is any way of increasing these sources. We then go on to discuss categories of expenditures and what institutions have attempted to do in becoming more "efficient" through instituting economies. We then turn to general issues of policy as these relate to both income and expenditures, and we note what several national commissions have suggested as possible approaches to dealing with the situation.

Patterns of Income

The broad categories for displaying sources of income are fairly well accepted--tuition and fees, support by state and local government, income from the federal government, gifts from private philanthropy and endowment earnings. These constitute the basic categories of Education and General income. Refinements of the categories are possible and are used by institutions in reporting income for various purposes.

To the Educational and General income are generally added income from Auxiliary Enterprises and Student Aid. This use of the categories is fairly well established and accepted. What is difficult to secure are comparable figures from one report or study to another. The annual reports--always issued two to four years after the actual year of experience--of the Department of Health, Education, and Welfare are not always comparable from year to year. For example, in 1968-69, these reports inserted a new category, "Other Current," which included major public service programs previously reported under government research, related activities, and in other portions of the Education and General revenue. Yet, the data collected by HEW remained the most comprehensive available to reviewers. In the summaries that follow the basic source will be the data of HEW, but we shall also be drawing heavily from the report of the National Commission on the Financing of Postsecondary Education[44] and several of the publications of the Carnegie Commission on Higher Education, particularly the report by June A. O'Neill.[45]

Overall Distribution of Income.--Total income for current operations for institutions of higher education in 1971-72 could be 26.4 billion, 29.5 billion or 30 billion, depending upon the source of information one used. All of the figures are ultimately derived from data provided by the Department of Health, Education, and Welfare through the National Center for Educational Statistics. The first figure is that reported in June, 1974 and derived from data made available by the National Center for Educational Statistics.[46] Incidentally, this was the same figure, or one very close to it that was used in a report of College Management in January, 1972, in which the estimated income was 26.5 billion.[47] The second figure is taken from the report of the Commission on the Financing of Postsecondary Education and refers to total support provided American colleges and universities in 1971-72.[48] The last figure is one used by the Committee for Economic Development in a report on financing of higher education issued in October, 1973.[49]

Some of the differences in the above figures are due to rounding, and others are due to different ways of calculating what constitutes actual income. For example, in many of its calculations, the Carnegie Commission suggests that leaving student-aid income in the educational income account is probably to double count it as institutional income, and the Commission subtracts this amount from many of its calculations.[50] But whichever source one uses, the increase over the past few decades is impressive. Using figures directly from HEW publications, we find that total income for 1939-40 was in the vicinity of 720 million. By 1949-50 it had climbed to 2.4 billion, in 1959-60 it was 5.8 billion, and in 1969-70 it was 21.6 billion.

For the analyses that follow we are more concerned about the way in which the income is distributed according to source than with the gross dollars involved. The Commission on the Financing of Postsecondary Education observes that one must have a frame of reference with which to assess data for planning. One way of establishing this frame of reference is to identify level of financing "by source and recipients."[51] Using the data for 1971-72, the last year for which "reasonably complete" data are available, and following the calculations of the Commission, we find that tuition and fees constituted over a third (34.9 percent) of the total income for current operating purposes. However, as the Commission observes, of the estimated 10.3 billion in tuition and fees, only 5.9 billion can be said to come directly from students and their parents. The Commission attributes most of the remaining 4.4 billion to federal grants and to a limited degree to state and local government and private philanthropy. On this basis, tuition and fees are seen to constitute 20.0 percent of the total current operating expenditures. The distribution, according to the Commission on Financing Postsecondary Education is shown below.

Table 1

Major Sources of Income for Postsecondary Education, 1971-72
(In billions)

Sources of Income	Institutional Support	Aid to Students	Total Support	Percent of Total
Student payments for tuition and other fees	$5.9*	--	$5.9	20.0%
State and local government	9.0	0.3	9.3	31.6
Federal government	4.2	3.9	8.1	27.4
Private philanthropy and endowment income	2.5	0.2	2.7	9.1
Auxiliary enterprises and other activities	3.5	--	3.5	11.9
Total	$25.1	$4.4	$29.5	100.0%

*Net of aid received by students from public and private sources and paid to institutions for tuition and fees.

Source: National Commission on the Financing of Postsecondary Education, Financing Postsecondary Education in the United States (Washington, D.C.: U.S. Government Printing Office, 1973), p. 69.

State and local government provide the next largest portion of the income, just over 30 percent. However, when one allocates a portion of the student fee income to the state and local government, the proportion becomes 31.6 percent.

On the face of it, the federal government contributes only 14.2 percent to the total current operating expenses. When, however, that portion of the student fee derived from federal support is included, the federal government provides 27.4 percent of the current operating expenses.

Private philanthropy and endowment income provide approximately 8.5 percent of the total income. Again, if we assume that a part of the student payment for tuition and fees is provided by private philanthropy, this proportion of the income increases to 9.1 percent.

Auxiliary enterprises and other activities provide 11.9 percent of current operating revenue.

Both in the analysis by O'Neill and that of the Commission on Postsecondary Education, there appears to have been an increase in the proportion that gross tuition and fees constitute current income. Using data from the U.S. Office of Education, the Commission shows that gross tuition constituted 17.2 percent of total current income in 1961-62, while in 1971-72, this source provided 21.9 percent of the income.[52] (The difference between the 20.0 percent used by the Commission in the earlier reference and the 21.9 percent used in this reference is due to the employment of different base figures.) O'Neill, calculating the proportion that gross tuition and fees constitutes of Educational and General income (excluding auxiliary enterprises and related activities), shows that for an earlier period, the trend was almost in the opposite direction. In 1939-40, gross tuition and fees constituted 38.1 percent of Educational and General income, while in 1967-68, this source constituted 25.7 percent.

What at first seems to be a contradiction between these two reports may not be one at all. Recognizing that data from year to year provided by the U.S. Office of Education, under its various designations, are not altogether comparable, we have calculated for each of the major sources of income the proportion it constituted of Educational and General income. Because we have not made some of the adjustments employed in both the Commission and O'Neill's reports, the percentages are somewhat different, but the trends seem to reflect those found in O'Neill's studies and for more recent years show how the apparent differences between the Commission report and O'Neill's report may be reconciled. First of all, shown below are the trends for gross tuition and fees. Note that the highest proportion for gross tuition and fees is indicated for 1939-40, the first year for which O'Neill reports. Note also that after 1967-68 there appears to be an upward turn in the proportion in which tuition and fees constitute Educational and General expenditures.

Table 2

Tuition and Fees as a Percentage of Educational and General Income

1909-10	26.5%	1949-50	21.4%
1919-20	24.3%	1959-60	24.6%
1929-30	30.0%	1967-68	24.3%
1939-40	35.0%	1969-70	26.8%

The overall generalization might be that in spite of the way in which tuition and fees became a larger portion of current income during the 1920s and 1930s, this source has constituted overall, a remarkably stable proportion until the late 1960s. Gross tuition and fees have accounted for approximately 25 percent of Educational and General income.

The Commission on Postsecondary Education does not attempt to provide an overview of the trends in state and local or federal financing. Rather, it analyzes in considerable detail recent developments in these areas. O'Neill[53] shows a fairly stable proportion of income from state and local governments from 1939-40 to 1967-68, and notes a significant increase in federal funding in 1953-54. Again, using gross figures from reports from the U.S. Office of Education, we have the following distribution of federal, state and local funds. The table below shows the proportion that federal, state and local governments have contributed to Educational and General income.

Table 3

Governmental Funds as a Percentage of Educational and General Income

Dates	Federal Percentage	State and Local Percentage
1909-10	6.6%	29.0%
1919-20	7.3%	35.6%
1929-30	4.2%	31.5%
1939-40	6.8%	30.8%
1949-50	28.5%	30.0%
1959-60	22.1%	32.5%
1963-64	27.6%	30.4%
1967-68	24.3%	34.0%
1969-70	16.3%	39.8%

We must caution that for federal as well as for state and local sources, the proportions are probably, particularly in recent years, underestimates. As the Commission on the Financing of Postsecondary Education has pointed out, substantial income from federal sources is hidden in the gross tuition payments. But even with these corrections, we note the significant increase in federal funding that began in the 1940s.

The sharp decrease in federal funding for 1969-70 may be somewhat distorted, since it was in that year that the Office of Education had separated income for R and D centers, hospitals, and placed it under a new category. If one takes a portion of that income and places it back again into Education and General and considers it as federal support, the percentage goes up somewhat. A fair estimate would be somewhere between 22 and 23 percent. Yet, the policy of the federal government to cut back support for research and certain other programs in 1967-68 is still fairly clearly indicated.

The pattern for private gifts and grants shown by O'Neill[53] indicates an increased proportion between 1939-40 and 1959-60 and a decrease in 1967-68. Referring to the data provided by the U.S. Office of Education and calculating the proportion over a longer period of time, we show the following trends.

Table 4

Private Gifts and Grants as a Percentage of Educational and General Income

1909-10	4.85	1959-60	8.05
1919-20	4.35	1963-64	7.05
1929-30	5.35	1967-68	6.15
1939-40	7.05	1969-79	6.07
1949-50	6.40		

This table shows that private gifts and grants constituted just under 5 percent of Educational and General income in 1909-10, that this source provided 8.05 percent in 1959-60, and then began to decline to 6.07 percent in 1969-70. O'Neill does not show as sharp a decline in the period for which she provides data, but the same general trend seems apparent.

Endowment earnings have become less and less a source of income. As O'Neill shows, in 1939-40 endowment earnings produced 13.5 percent of current income, while in 1967-68, this source provided only 2.8 percent of Educational and General income. A similar pattern is revealed over a longer period of time in the table below.

Table 5

Endowment Income as a Percentage of Educational and General Income

1909-10	17.4	1959-60	4.4
1919-20	15.2	1963-64	3.4
1929-30	14.05	1967-68	2.6
1939-40	12.4	1969-70	2.7
1949-50	5.2		

In 1909-10, endowment income provided 17.4 percent of the Educational and General income, declining slowly until the 1940s, when increased federal income changed the pattern of financing significantly. From the 1940s to the present date, endowment income has constituted a small proportion of Educational and General income.

The preceding description has made no distinction between public and private institutions, nor has it made distinctions between types of institutions, public or private. The Commission on Postsecondary Education shows that in 1971-72, tuition provided somewhat over one-third of total income for private institutions, while it constituted only approximately 15 percent of the income for public institutions.[54] Using Educational and General income as the base, O'Neill shows that in 1967-68 tuition and fees constituted 43.8 percent of the income for private institutions and only 14.7 percent of the income for public institutions. But even this does not provide the full story, since by the late 1960s some private institutions were deriving 75 to 80 percent of Educational and General income from tuition. Indeed, some were approaching 90 percent dependence on tuition and fees.

Income from state governments, exclusive of that channeled through tuition, constituted less than 2 percent of the income for private institutions and over 56 percent of the income for public institutions. Federal income provided over 30 percent of the income for private institutions in 1967-68 and just over 22 percent of the income for public institutions in 1967-68.[55]

Philanthropy provided comparatively more income for private higher educational institutions. O'Neill shows 12.7 percent of the income for 1967-68 in private institutions being derived from private gifts and grants, while only 2.6 percent was received by public institutions. Our own calculations show that in 1969-70, approximately 13.3 percent of the Educational and General income of private institutions was derived from private gifts and grants. Both our figures and those of O'Neill show considerable fluctuation between 1939-40 and 1967-68.

Likewise, private colleges receive comparatively more from endowment than do public institutions. According to O'Neill's figures, in 1967-68 endowment earnings constituted 6.6 percent of Educational and General income for private institutions and only 0.4 percent for public institutions.

As we suggested at the beginning of this summary, while individual institutions will and do vary from any average distributions, we need some frame of reference from which to assess data. These distributions provide such a frame of reference. We now turn to a consideration of some of the issues relating to each of the sources of income.

Tuition and Fees as a Source of Income.--Few matters are as roundly debated in current literature as those relating to tuition charges. It is not difficult to understand why this is the case, because one's position with regard to tuition can reflect in many ways basic attitudes toward higher education. While the immediate reaction to proposals either to increase or to decrease tuition may be based on costs and the need for more or less revenue, the question of whether tuition should constitute a larger or smaller proportion of costs is essentially, to use the title of the Carnegie report, one of "Higher Education: Who Pays? Who Benefits? Who Should Pay?"[56] In an earlier treatment of the same theme, M.M. Chambers asked the question "Higher Education: Who Pays? Who Gains?"[57] As a nation, the people of the United States have accepted the principle that common schooling should extend through the secondary level. While attending such schools is not totally without cost, by public policy we are committed to providing an essentially free and tax-supported system of schools through the elementary and secondary levels. Such is not the case in higher education. Or, at least there is no uniformity of opinion regarding the extent to which higher education should reflect the same principle as that found in secondary education.

The issue may be one of assigning benefits. We seem generally to be convinced that free schooling through the secondary level is important because society as a whole benefits from having an educated citizenry. In its report of June, 1973 the Carnegie Commission, however, suggested that at the postsecondary level it may be the individual who primarily benefits.

> No precise--or even imprecise--methods exist to assess the individual and societal benefits as against the private and the public costs. It is our judgment, however, that the proportion of total economic costs now borne privately (about two-thirds) as against the proportion of total economic costs now borne publicly (about one-third) is generally reasonable. We note that for one item--additional earned income by college graduates--about two-thirds is kept privately and about one-third is taken publicly in the form of taxes. We also note that this two-thirds to one-third distribution of total economic costs has been a relatively stable relationship for a substantial period of time.[58]

In basic disagreement with such a position, M.M. Chambers has earlier stated, in keeping with a long-held conviction that higher education "benefits" every citizen, of whatever age, sex, or educational status; hence its cost should be equitably apportioned to all by means of a tax system adjusted to economic conditions. In short, "higher education is essentially a public function and a public obligation--not a private privilege or a private caprice."[59] He refers with approval to a statement made by the Iowa State Board of Regents adopted in 1967:

> The state university is an instrument of the open democratic society. Its basic function is to open up opportunity to young men and women of all socio-economic classes, and in so doing to provide an abundant supply of educated people to serve our economy and our society.
>
> One of the most significant American innovations and one of the most cherished American institutions has been free public education. The idea is well established that education at the elementary and secondary levels should be free to all regardless of socio-economic class. Since the founding of our public universities and especially since the land-grant movement starting in 1862, under Abraham Lincoln, it has been equally accepted that public higher education should be open to all at low cost.[60]

Or, to put the matter in other terms, education may be viewed either as investment or consumption. As John Vaizey observes:

> Goods and services can broadly be divided into two classes: those from which consumers derive immediate benefit, which are called consumption, and those which are used in production to produce over a long-term, called investment. Education must be one or the other, or both.[61]

He goes on to say that education is a consumer good in that people value it for itself, and spend their money for it; they decide to spend money for education instead of for other things. It is also an investment in that it produces long-term results, not only for the people who themselves are educated but for the larger society. The issue becomes then, at the risk of oversimplification, that there are some who emphasize education as consumption, for the immediate benefit accruing to those who participate in it, while others view it as investment, with the benefits accruing to a larger portion of society and over a longer period of time.

The differing points of view regarding higher education have been present for a long period of time. The positions, however, are expressed more sharply in times of social stress and of financial pressure. Such was the situation in late 1973 when two reports, both appearing to lean toward the concept of education as private consumption, proposed increasing tuition charges within the public sector. Reaction was fast in coming. The Carnegie Commission, the issuer of one of the reports, subsequently issued a supplemental statement to explain and defend its position.[62]

The basic report of the Carnegie Commission on financing appeared in June, 1973, and observed, as we have already noted, that about two-thirds of the cost of higher education was being borne in various ways privately; it argued that this proportion was probably correct. While the original Carnegie report contained a number of recommendations regarding funding patterns--a temporary increase in public funding, a redistribution of governmental costs from the states to the federal government, a redistribution of student subsidies in favor of those from low income families -

an increase in subsidies to institutions in the private sector--the recommendation most vigorously attacked had to do with increasing tuition in public colleges and universities until it reached a level of about one-third of the educational costs of those institutions. This was to be compared with what then seemed to be the current level, at which tuition covered one-sixth of such costs. The report was not advocating full costing, but it suggested that students could bear one-third of the cost.[63] The report freely acknowledged that such an increase on the part of public institutions would have a favorable effect upon private institutions.

The report of the Committee for Economic Development appeared in October, 1973.[64] This report indicated that the two major financial issues which had emerged were that many private institutions were unable to raise tuition levels high enough to cover the cost because of competition from public institutions and that public institutions, on the other hand, were finding it difficult to secure expanded or even constant-level appropriations from the state legislatures. Both public and private institutions faced difficulties, and the proposal of the Committee, in addition to urging institutions to be more effective managers of resources, was that there be increased grants and loans made to students through the federal government and that tuition and fees be increased until they "approximate 50 per cent of instructional costs (defined to include a reasonable allowance for replacement of facilities) within the next five years."[65]

Even before the official release of the CED report, the American Association of State Colleges and Universities on September 25, 1973, contended that the report leaned too heavily toward the private universities and middle and upper-middle income groups. The Executive Director of the Association argued that the proposal was a direct attack on middle and lower-income American families. Very early in the debate Representative James G. O'Hara, Chairman of the House Subcommittee responsible for writing higher education legislation, stated that as long as he was Chairman of the House Subcommittee he would be very "inhospitable to proposals that the state universities and community colleges raise their tuition--or that federal funds be made any harder for the real middle-income student to get."[66] And he went on to say that in his opinion there should be a return "to the policy on which our land-grant and community colleges were founded--free higher education for all who can profit from it, without any financial barriers at all."[67]

Subsequently, he wrote an extended article for Change in which he said, "I am becoming more and more concerned that a concerted effort to raise tuitions at public institutions--to make private institutions more attractive to prospective customers by making public ones less attractive--is underway. I think it is a very wrong-headed effort."[68] He argued with the basic assumption that education benefits only the student. While recognizing that a college education substantially increases a student's likely income, he contended that the concept of education as investment rather than expenditure "is as old as this nation--older, in point of outright statutory recognition, than the Constitution itself."[69] And he referred to the Northwest Ordinance of 1787 as a case in point. He stated:

> I think we must try to create the opportunity for every American--whatever his background, his economic class, his age, or the point he has reached in his career--to have access to a full range of postsecondary education opportunities to the full extent he can benefit from them. The student just coming out of high school; the mature person who wants to change a career or who finds that his career is threatened by technology; the person approaching retirement who wants to live a richer life--to each of these the doors of postsecondary education must be open, and kept open.[70]

In November, 1973, at the meeting of the American Association of State Colleges and Universities, and subsequently at a meeting of the National Association of State Universities and Land-Grant Colleges, similar statements were adopted referring to the need to maintain the century-long concept of no or low tuition in public higher education and of providing maximum educational opportunity through the maintenance of the low tuition principle.[71] The two groups endorsed a position paper issued jointly urging the continuation of no or low tuition. Arguing against student-aid programs, they contended that such programs are "subject to the annually shifting political and economic priorities of governments and private lenders and are undependable means to aid low- and middle-income students."[72]

In February, 1974, the American Council on Education issued a statement on tuition policy. Beginning with the proposition that all of those seeking post-secondary education should have access to a broad range of opportunities and that high quality postsecondary education be maintained "through the healthy coexistence of public and private institutions," the Council disagreed with the proposal for accelerating the rate of increase in tuition among public institutions. Asking for strong support of private institutions, the Council suggested "a judicious mixture of student loans, scholarships and fellowships, and cost-of-instruction grants--the cost shared by our state and the national government--can assist our private institutions without increasing the cost to students in the nation's public colleges and universities."[73]

Later in the year, in September, 1974 a group charged with developing papers on key issues for the Democratic National Committee appeared to be coming out strongly against tuition increases; Joseph D. Duffey, General Secretary of the American Association of University Professors, in a paper prepared for and delivered to the group, argued that advocating increased tuition in public institutions "leans heavily upon the argument that the main benefits of higher education accrue to the individual rather than to the society itself, and therefore the individual should pay the major costs of such education."[74] Differing with this position, Duffey proposed that the basic federal thrust should be toward student support, that a minimum of two years of post-high school education should be considered due to every American, that federal funding policy should encourage an access to education for all ages, that federal support for postsecondary education should increase from approximately 1.5 billion to 2.5 billion, "as a first step."

In the meantime, tuition and fees continued to increase for both public and private institutions. Overall costs for attending college have risen 40 percent in four years, according to a report by the College Scholarship Service of the College Entrance Examination Board. Reporting on comparison of costs between 1970-71 and 1974-75, C.S.S. indicated that the average cost for commuting students at public four-year colleges had increased over this period of time by 17.5 percent, to a total of $2,085. For private four-year institutions, the increase had been on the order of 16.5 percent, to a total of $3,683. For residential students at both institutions, the increases over the same period of time had been 7 percent for public four-year institutions, to a total of $2,400, and 9.4 percent for private four-year institutions, to a total of $4,039. These costs included tuition and fees, room and board, and expenses for travel and personal needs.[75]

Among public institutions tuition and fees alone had increased over this period of time from $395 to an average of $541 in 1974-75. In private four-year institutions the increases in tuition and fees were from $1,517 to $2,080 in 1974-75. Perhaps the sign of the times is a note in the December 16, 1974 Chronicle to the effect that Stanford was proposing the largest tuition increase in its history, an increase of 12.9 percent, from $3,375 to $3,810, effective in the fall of 1975.[76]

On the other hand, at least one state university system has taken an opposite approach. In the fall of 1973 the University of Wisconsin Center at Fond du Lac slashed its two-semester tuition charge from $476 to $150. Subsequently, the Center reported an enrollment increase of 47 percent for the year. The Director of Special Projects for the University of Wisconsin System was of the opinion that the enrollment increase was largely a response to the tuition cut. A second center, one at Rice Lake reported a 23 percent increased enrollment following a reduction in its two-semester tuition of $515 to $100. For the other university centers, the average enrollment increase was on the order of 7 percent.[77]

These developments prompted the president of the University of Wisconsin System to propose cutting tuition in half for undergraduate students who were residents of the state. The proposal went to the University's regents. The tuition during 1974-75 for the system ranged from $500 to $628 for resident students.[78] The plan was subsequently approved by the university regents, but immediately met opposition in the statehouse. The move on the part of the regents was to stem what seemed to be a general enrollment drop among many of the institutions in the system. For those expressing concerns that the decrease in tuition for the public institutions would have a detrimental effect upon private institutions, one official suggested that the plan would be accompanied by increases in current state tuition grants for private colleges.[79]

In Vermont, the Community College of Vermont has approached the matter in a wholly open-ended way. The Board of the Vermont State Colleges decided in 1973 that the Community College of Vermont would start charging tuition. However, at registration time the students were told that to meet the needs of the college $30 per course would be required, but that it was up to the individual to decide how much might be paid. The situation of the Community College of Vermont is, however, atypical. It has no campus, no buildings, no permanent faculty, and 1,500 students scattered throughout the state. Two-year degrees are awarded on the basis of individually contracted learning programs and demonstrated competence. The board approved a one-year trial of the approach and will make some assessment at the end of the year.[80]

For private institutions, increasing tuition without providing for additional student aid funds is likely to restrict an already tightening "market." One of the first reports of the Carnegie Commission demonstrated quite clearly that the net return from tuition increases is likely to be less than anticipated. William G. Bowen's study of the income-expenditure patterns in major private universities was issued in 1968. In that study he singled out for special analysis three institutions, Chicago, Princeton and Vanderbilt. He noted that between 1958 and 1966 the tuition had increased at an average rate of slightly over 8 percent per year. He then deducted expenditures on student aid from the gross fee and calculated an index of the net fee income per student which could be compared with the index of gross fee income per student. During the period of time under study he found a widening gap between the gross fee income per student and net fee income per student. Indeed, when he compared changes over a shorter period of time, between 1962 and 1966, he found that while the gross fee income per student had increased more than $400, the net fee income per student had increased less than $90.[81] Simply increasing tuition does not necessarily lead to significant increases in usable income for the institution!

Considerable attention has been given to the "tuition gap" between public and private institutions, the difference between tuition charged by private colleges and universities and that charged by public institutions. The Commission on Financing Postsecondary Education provides an analysis of the differential and contends that while such a gap is real, its significance is probably greatest for the upper-middle class students, those who, because of family income, are not eligible for grants or scholarships. The Commission suggests that the tuition gap does not actually exist for students in the lowest income group, because this group receives a large share of the grants and other aid for tuition cost. The problem is that in providing assistance for lower income students, many private institutions may be offering larger aid packages than they can actually continue to afford. The table below, based on data reported in the Commission report, shows that the greatest tuition gap is among research universities, where in 1971-72, private institutions were charging on an average tuition 4.8 times greater than that provided in public institutions.

Table 6

Average Ratio of Private to Public Tuition According to Reported Tuition Charges, by Selected Carnegie Classifications in 1969-72*

Institutional Type	1969-70	1970-71	1971-72
Large Research Universities......	4.2	4.4	4.6
Other Research Universities......	4.9	4.8	4.8
Large Ph.D. Granting Inst's......	3.1	3.5	3.4
Small Ph.D. Granting Inst's......	5.0	4.4	4.2
Comprehensive Colleges...........	4.8	3.4	3.3
Comprehensive Colleges - limited.	4.5	3.6	3.2
Selective Liberal Arts Colleges..	4.4	3.4	3.2
Other Liberal Arts Colleges......	4.7	3.4	3.1
Two-year Colleges................	1.6	3.0	3.5

*The figures in each column have been determined by dividing the average tuition for private institutions of each type by the average tuition for public institutions of that type. Thus, in 1971-72, tuition in private research universities was 4.6 times that in public research universities.

Source: National Commission on the Financing of Postsecondary Education in the United States, Financing Postsecondary Education in the United States (Washington, D.C.: U.S. Government Printing Office, 1973), p. 203.

When, however, tuition assistance is taken into account, and net tuition costs are considered, the ratio goes down to approximately 3.9.[82] While the ratio declines somewhat when net tuition is considered, the difference ~~is~~ still, it seems to us, significant.

As a further piece of information, the Commission points out that in 1972 private institutions were reporting student grants 41 percent in excess of funds provided for or designated as income for student aid. The Commission sums up the situation in the following words:

> As long as enrollments were rising, student aid deficits and the price discounts from which they stemmed appeared to reflect not only a desirable social policy but also good management. Price discounts were and are used to attract to each institution the desired number of students in the preferred social, economic, and cultural mix so as to produce the maximum amount of income in tuition and other fees. Now, however, institutions are under strong pressure to continue increasing their discounts, but they can no longer be assured of attracting enough students to generate the budgeted level of income for current expenses and student aid. The potential result is a cost-price gap of serious proportions.
>
> Given the present competition among collegiate institutions for students, institutions may continue to use student aid funds and other unrestricted funds to discount the advertised tuition (price) in order to attract students to their institutions. This discounting continues to be a potential cause of financial distress. To the extent that institutions attempt to cover the cost of this discounting by increasing the advertised tuition to all students, the tuition charges for students who are not grant recipients will become inflated.[83]

The problem becomes even more sharply defined as we note the manner in which the College Scholarship Service has revised its estimates of how much money parents should be expected to contribute to the cost of their children's education. The new schedule, to go into effect for 1975-76, shows a sharply reduced figure in all of the categories. The reduction was made in September, 1974, because of a projected 18 percent increase in the Consumer Price Index between February, 1973 and December, 1974. The C.S.S., in calculating parental contributions, deducts items such as taxes, medical expenses, retirement allowances, and other special costs from a family's total income to calculate an "adjusted income." It is on the basis of the adjusted income that the service indicates expected contributions. For example, a family with an adjusted income of $8,000 was expected to contribute $900 for one child in college in 1974-75. This is reduced to $290 in 1975-76. At the upper levels of income, a family with an adjusted income of $20,000 was expected to contribute $6,270 to the support of one child in college in 1974-75; in 1975-76 this is reduced to $4,910. These adjustments have the effect of making students eligible for more financial aid from outside sources. The only problem is that comparable increases in available funds from outside sources are not in sight.[84]

If parents are faced with the necessity of reducing the amount they can contribute to the student's support, where do they go for support? One source has been the federally insured low-interest student loans. But defaults on loans are cutting into the amount of money that can be made available to students. In the President's budget message in early 1974, a major goal stated was an expansion of the guaranteed student-loan program. And, in the request presented in January, 1975, there was a $31,000,000 increase over the previous year's budget request. However, of the $31,000,000 increase, some $26,000,000 was directed to cover defaults, while only $5,000,000 would cover interest subsidies which the government pays for needy students. Moreover, in the request for a $30,800,000 supplemental appropriation for fiscal 1974 it was noted that all of this money would be needed to pay increased 1973 and 1974 defaults. It was estimated that the cost of defaults had risen over the past three years from $46,000,000 in fiscal 1973 to $88,000,000 in fiscal 1974 and to $115,000,000 to cover fiscal 1975. Default figures were actually higher than these estimates, because the interest payments, collected defaults, and other deposits to the program, in addition to the actual appropriations requested, helped cover the debts. It appears that the growing defaults are due to the increased amount of loans that have reached repayment status.[85]

Another factor entered the loan picture when in 1974 the Internal Revenue Service began to enforce a 1973 ruling that "forgiven" loans would be considered income and that taxes would have to be paid in the year that the loans were cancelled. It was argued that the loans were made primarily for the benefit of the grantor and could not be considered tax-exempt scholarships. It was noted that many state and federal programs, as well as privately sponsored programs provided for a cancellation of all or part of loans to persons in selected occupations in return for the agreement to serve in low-income or poorly staffed areas or to instruct the handicapped. The particular loans affected were those under the National Direct Student Loan Program, formerly called the National Defense Student Loan Program, the Nurse Training Act of 1971, the Comprehensive Health Manpower Act of 1971 and certain state programs. The reaction of students and state officials was that there had been no notification that the funds would be taxed when the loan was made.[86]

Pointing up the increased problem of defaults on guaranteed loans, a report in the fall of 1974 indicated that the Federal government may be facing a loss of over a half-billion dollars in defaults. It was indicated that an average of 25.3 percent of such loans outstanding as of January 1, 1974, would not ever be repaid by the borrowers. In fiscal 1974 alone, an estimated 14.5 percent of the students who owed repayments to lenders had defaulted on them, constituting a loss of $138,000,000 since the program began in 1966. By the end of the year it was anticipated that the default rate would rise to 18.5 percent and result in a cumulative loss of $274,000,000. The total of $508,000,000 loss was predicted, based upon these experiences.[87] It appeared that the percentage of defaults and the type of school in which the persons were enrolled had some relationship. It was noted that students in proprietary schools would make up 58 percent of the defaults, that those at public institutions would constitute 33 percent of the defaults and those at private colleges 9 percent.

Faced with the serious defaults, the U.S. Office of Education proposed in October new criteria for removing colleges and universities from the guaranteed student-loan program. Among the proposed requirements was one that the institution would have to establish "a fair and equitable refund policy." The school would have to refund tuition and fees to a student holding guaranteed loans within 30 days of the date it is notified the student is withdrawing. In addition, no more than 10 percent of the student loans in repayment status at the institution could be in default, no more than 20 percent of the students receiving loans at the campus could withdraw during a given academic term and no more than 6 percent of the institution's revenue from tuition and fees could come from loans. It was also proposed that new rules cover the educational and commercial lenders who make the guaranteed loans.[88]

In spite of the problems and the proposed new regulations, it appeared that as academic year 1974-75 got underway, government-insured loans were apparently more available in 1974-75 than during the previous year. It was noted, however, that the dollar amount had not reached the peak lending rate of the 1971-72 academic year. And for some students, the situation will still tight. It was noted that "for freshmen, as for other new borrowers, for poorer students, for city dwellers, for students at high-priced institutions, at graduate schools, and at community colleges, much of the picture is still gloomy."[89]

Government insured loans have become a major source of student aid. One of the reasons for an increase in the volume of loans for 1974-75 may have been the relaxing of the "needs test" to determine eligibility for interest subsidies. The needs test was lifted in June for all families whose annual income, when adjusted for living expenses and number of family members, was below $15,000. It was noted, however, that there is increasing reluctance on the part of commercial lenders, banks and savings and loan institutions, to make such loans. Loans made for the year seemed generally to face severe restrictions. In particular, freshmen seeking new loans were facing difficulties.

We have already noted that the guaranteed loan program has been facing increasing defaults. In late 1974, it was apparent that the National Direct Student Loan Program, established in 1959 as the National Defense Student Loan Program was also facing serious defaults. Under this program institutions could make loans directly to students rather than requiring students to seek loans on their own from banks as is the case for the guaranteed program. It now appears that defaults are high in the direct loan program as well. It was noted that potential defaults on loans at least 120 days past due in fiscal 1973 were running at 14.2 percent, or $261,000,000 on about 1.84 billion dollars in matured loans. No estimate had been made for fiscal 1974 or the current fiscal year. It was contended that collection of loans had low priorities among student aid officers at institutions; individual campuses had not followed through on delinquest accounts. Apparently an increasing number of institutions are turning to outside collection agencies.[90]

A study by the U.S. Office of Education reported late in 1974 that for the guaranteed loan program, the smallest number of defaults were among students attending private colleges. Student borrowers at public junior and senior institutions accounted for the highest number of default claims, with students at proprietary institutions close behind. It was noted also that the lower the student's income, the greater the chance for defaulting. The highest percentage of claims was found in the lowest adjusted family income group, those with $3,000 and below. The next highest rate was found among students whose adjusted family income was between $3,001 and $6,000.[91]

In the midst of the concern for student loan funds, the College Entrance Examination Board indicated at its annual meeting in late October, 1974 that student financial aid funds for higher education from federal, state, and private sources would have to be increased an estimated 2 billion for 1975-76, but that it was unlikely that such funds would be made available. Sidney P. Marland, Jr., President of CEEB, predicted that there would be a 2-billion dollar aid gap for 1975-76. This amount was calculated on estimates of rising costs of college attendance and recent changes in the formula used to estimate student eligibility for aid. As we earlier noted, the estimates of the amount of funds parents could contribute were revised downward for 1975-76.[92]

Earlier in 1974, nine private colleges participating in a two-year study sponsored by the Alfred P. Sloan Foundation, argued that during the rest of the 1970s and into the 1980s, private colleges would need significantly expanded loan programs if they were to help their students meet rising expenses. It seemed clear to the group that the only thing ahead was "periodic, probably annual, increases in tuition."[93] The nine colleges involved in the study--Amherst, Brown, Dartmouth, Harvard, Massachusetts Institute of Technology, Mount Holyoke, Princeton, Wellesley and Wesleyan--said that they were increasingly asking students to rely on financial aid. Unable to increase their own scholarship funds at this time, the only other possibility was to rely increasingly on loan funds. While some thought had been given to having the colleges set up their own private loan programs, this was rejected in favor of more participation in the federally subsidized guaranteed student loan program. The report referred to the Student Loan Marketing Association which was sponsored by the government to buy and sell loans under the guaranteed student loan program. Under this Association, colleges become lenders by being able themselves to borrow money on a short-term basis from SLMA.

Another approach to assisting students to meet expenses emerged early in 1971, the so-called deferred tuition plan. The Ford Foundation announced that it would support for a limited, trial run, a plan that would enable students to meet college costs through long-term loans that could be repaid at a fixed percentage of their future annual earnings. Some 25 institutions had indicated interest in participating in such a plan. The plan was to permit students, regardless of need, to borrow up to the full cost of their higher education from a single agency and pay it back over some 30 years with the repayments based on yearly income. This would mean that some students could eventually pay back more than they had borrowed, while others might repay less. A Presidential advisory panel in 1967 had proposed a similar plan under the title of Educational Opportunity Bank.[94]

A month later Yale University announced that it was going to initiate its own version of the plan by allowing students to defer their tuition for up to 35 years in return for a fixed percentage of their future annual income. Yale planned to finance its program with the aid of a few wealthy alumni and through its own borrowing power. According to the Yale plan, the student would make a contract with the university to postpone as much as $800 a year and for each $1,000 deferred, the student would pay back a percentage of his yearly income over a maximum of 35 years. The contract could be canceled up to six months before the student was due to graduate, in which case the debt would be converted to a more common type of loan. In addition, a participant could end his repayments at any time by giving the university enough to bring his total payments to one and one half times the amount of tuition originally postponed, plus administrative costs.[95]

In March, 1971, Duke University indicated that it might attempt such a plan in the fall of 1971. It was suggested that initially the plan might involve 100 to 150 upperclassmen and graduate students.[96] In the meantime, some public college groups had indicated definite opposition to such a plan. The year after it had indicated interest in backing such a program, the Ford Foundation decided not to finance the experiment. It was reported that after a year-long study, the Foundation concluded that it had insufficient additional private capital to make the investment in such a program worthwhile and that it also was of the opinion that the risk in financing what was then coming to be called income-contingent loans, was too great for most academic institutions to undertake by themselves.[97] The story also suggested that Ford might later propose a modified plan. In October, 1972, a Ford Foundation task force proposed a plan called "pay-as-you-earn," or PAYE. Under the task force proposal, the repayment schedule would be fixed in advance and the amounts to be paid back annually would increase according to a predetermined scale of the borrower's anticipated earnings. Those whose income would not meet the schedule could defer payments a year. At the end of the loan period, the college would absorb the amounts still outstanding. The plan would also be tied to the federal government's existing guaranteed-loan program. The task force suggested that only the government in the long run is capable of bearing the capital risk involved in such types of programs. The Ford Foundation was not itself entering into the program but was suggesting it as an alternative to the type of program adopted by Yale.[98]

In the meantime, Yale indicated in the fall of 1971 that 22 percent of the undergraduates had asked to participate in the first year of the university's deferred tuition plan. It was reported that more than 80 percent of those who asked for deferments asked for the maximum amount, $800 per year. And at Duke University, 40 undergraduates and 33 professional school students signed up for deferred payments.[99]

Picking up on the earlier suggestion of the Ford Foundation, federal student aid officials examined proposals to modify the guaranteed-loan program to take on some aspects of the income-contingent plan. In March the government announced that it had rejected the proposed variation. Initially, apparently the officials appeared to favor the idea, but the announcement indicated that budgetary considerations made a graduated repayment schedule unfeasible. There was fear that graduated repayments would increase the government's liability to pay defaults, already severe enough with the insured-loan program.[100] The story went on to indicate that at Harvard, where such a modified program was underway, some revisions were already being considered. Northwestern University was reported to expect to try some form of income-contingent loans in the fall of 1973. The rejection of the plan, however, by the government, apparently caused the revision in some of the planning of the nine colleges that had earlier participated in the Sloan study and who were planning a cooperative pay-as-you-earn program for 1974.

In March, 1971 Governor John J. Gilligan had suggested an income-contingent loan plan for the state of Ohio. Under the proposal, every student in Ohio would be obligated to repay the state of Ohio the full amount of the direct state subsidy the student had received while in school, and the repayment would be on the basis of future income. No student would be obligated to repay more than the state subsidy, and if the student did not receive sufficient income, then the subsidy would not be repaid or would be repaid only in part. A variation of the plan was proposed by the Ohio Board of Regents in the summer of 1972. Neither of the plans was adopted by the legislature.

Clifford W. Wharton, Jr., in an article in December, 1971 attacked income-contingency plans as a threat to a great commitment. Returning to the argument of who pays and who benefits, he contended that the income-contingency plans emphasized returns to the individual, while historically the United States had emphasized free access to education and the returns to society. He stated that "the income-contingency loan idea constitutes a definite shift away from public decisions and responsibility for the support and control of higher education toward a philosophy of private responsibility and private enterprise, with major consequences.[101] And with Wharton's comment we find ourselves back in the earlier debate over "who benefits" and "who should pay."

<u>The State Government as a Source of Income.</u>--As we have already shown, the single largest source of current operating income for higher educational institutions as a group is state and local government; and in this combination most of the funds are derived from state rather than local sources. According to the Commission on Financing Postsecondary Education, state and local governments provide 31.6 percent of the total current income (Educational and General, Auxiliary Enterprises, and

"other," combined.) As a percentage of Educational and General income alone, based on data supplied by the Commission on Financing Postsecondary Education, state and local governments account for 35.8 percent of this income.

Most of the income derived from state governments is directed to tax-supported institutions within the territorial limits of the state granting the funds. In recent years, however, state funded scholarship and grant programs have come to provide significant funds for some private higher educational institutions. The Commission on Financing Postsecondary Education reported that in 1972-73 some $348,200,000 had been awarded to 748,700 students, to make an average award per recipient of $465. The amount awarded by states almost doubled over the four-year period between 1969-70 and 1972-73. In 1969-70 the states awarded $191,500,000 to 487,800 individuals, for an average grant per person of $393.[102]

June O'Neill shows a continuing growth in income from state and local sources over four decades, from 1930 to 1968. The growth rate between 1930 and 1968 was 9.5 percent; between 1960 and 1968, however, income from state and local governments increased by 15 percent.[103] The most significant growth, of course, has been among the public institutions. In another calculation, O'Neill shows the percentage of income from state and local funding to private institutions decreasing (to constituting 1.8 percent in 1967-68 in comparison to 3.1 percent of the income for private institutions some 26 years before, 1939-40.)[104] As we have suggested, however, the state scholarship and grant funds, which are reflected only in tuition payments, have become significant only since 1968, and state support in toto, even if indirect, may have increased to private institutions.

On the basis of our own calculations, employing data from the U.S. Office of Education reports, we show the following trend in the proportion that state and local funds provide within Educational and General income for all (public and private) institutions combined. The data are for 1909-10 through 1969-70. Note that there has been some fluctuation but that the proportion of income derived by higher educational institutions from state and local funds reached its highest point in 1969-70 (39.8 percent.)

Table 7

State and Local Governmental Funds as a Percentage of Educational and General Income

Dates	State and Local Percentage of Educational and General
1909-10	29.0%
1919-20	35.6%
1929-30	31.5%
1939-40	30.8%
1949-50	30.0%
1959-60	32.5%
1963-64	30.4%
1967-68	34.0%
1969-70	39.8%

Over the years M.M. Chambers has monitored the state funding of higher education. For recent years his calculations show that for the two-year period from 1967-68 to 1969-70 state appropriations to higher educational institutions, when all states are combined, increased by 38.5 percent. This was a period of significant increase. During the next biennium, from 1969-70 through 1971-72, appropriations continued to increase, but by only 24 percent. For the next biennium, from 1971-72 through 1973-74, there was again an increase, this time by 25 percent.[105]

The most recent data on state support involve some overlap with a previous biennium and show that for 1972-73 through 1974-75, appropriations increased 29 percent. It may be noted, however, that an estimated two-thirds of the increase has already been used up by inflation, and that the actual increase is actually less.[106]

When the figures are adjusted to the loss of buying power, it appears that six states have actually lost ground in the last two years: Hawaii, down 22 percent; Texas, down 6 percent; Minnesota, down 5 percent; Maryland and WestVirginia, down 2 percent; and North Dakota, down 1 percent. It may also be noted that over the past 10 years the increase in state appropriations for higher education has been 349 percent; however, when this increase is adjusted for inflation, the effective increase is probably only 152 percent. South Carolina, Pennsylvania, Massachusetts, Connecticut and Alaska led the other states during the last decade in the amount of increase appropriated for higher education.

The Center for Research and Development in Higher Education at the University of California at Berkeley, calculated for each of the states the percentage of total revenues devoted to higher education for the decade from 1963 through 1973. The largest proportion was given by the state of Wyoming, 37.6 percent of total revenue. This proportion has remained fairly stable since 1963. Oregon represented the next largest, granting 28.0 percent of its total revenues to higher education. This is to be compared with 20 percent in 1963.

Among those states with very extensive systems of higher education, the proportion of state revenue granted to higher education is somewhat less than in Oregon, but the total amounts are considerable. California, with almost six billion dollars in state revenue, appropriated 16.9 percent to higher education in 1973, an incrdase over 15.6 percent of less than two billion in revenue in 1963. New York, with state revenues of almost 7.7 billion in 1973, appropriated 9.6 percent to higher education; this is also an increase over the 6.8 percent of 2.3 billion in revenues in 1963. Pennsylvania has perhaps shown the most significant increase. In 1973 it appropriated 10.7 percent of 3.7 billion in revenues, while in 1963 it appropriated 5.4 percent of one billion in revenues. In 1973 Michigan appropriated 13.9 percent of its revenues, Illinois 8.8 percent, Ohio, 18.0 percent, New Jersey, 10.6 percent, to mention only a few others. In each of these last four states, with the exception of Illinois, the proportion of state revenue appropriated to higher education has increased since 1963.[107]

It is clear that state governments are heavily involved in financing higher education. The total funds granted to colleges and universities has increased significantly in recent years, although inflation has dampened some of the impact. Yet the tax-supported institutions have contended that appropriations have not kept pace with increases in costs.

Even as state governments have experienced increased demands from tax-supported institutions, they have moved in recent years to provide assistance, often indirect, to private institutions. The main form of assistance has been through state scholarship and grant funds. By late 1974 there were student-assistance programs in 41 states and Trust Territories.

As the Commission on Financing Postsecondary Education has observed, state and local support for private colleges and universities goes back to the colonial period, the first instance of which was the public financing for the support of Harvard College in 1636. Harvard received public funds through the early decades of the 19th century. The same pattern was followed among the eastern states in several other institutions.[108] Public support of private higher education changed dramatically after the Morrill Act of 1862, and in time the aid became limited to indirect forms such as allowing institutions to be exempt from state and local property taxes. More recently, however, there has been a resurgence of effort on the part of the states to assist private institutions, particularly in states where private institutions are numerous and serve substantial proportions of state residents. The Commission observes:

> In the states that have acted to provide direct or indirect aid to private colleges and universities, the primary justification has been that, without such aid, private institutions would no longer be able to compete for students against heavily subsidized public institutions. Private institutions would thereby lose their ability to provide a diversity of educational experience and to serve students who would otherwise attend tax-supported public institutions.[109]

The Commission refers to the Heald Committee which urged that aid be given to private institutions in New York because such institutions would "give American education a diversity and scope not possible in tax-supported institutions alone," since the private institutions "have an opportunity to emphasize, if they wish, individualistic patterns of thought, courses of social action, or political or religious activity."[110]

While a number of state constitutions bar the use of public funds for private institutions, the majority of the state courts "have not tended to interpret the state constitutions narrowly and have generally followed the lead of the United States Supreme Court."[111] The general principle has been that when the state funds are used for a "public purpose" the question is less a matter of who handles the money than the purpose for which it is used.

> The greater portion of measurable state and local aid to private collegiate institutions is provided in the form of student financial assistance, either to all students, regardless of whether they attend a public or private institution, or only to those who attend private institutions. But many states also provide direct or indirect aid to private institutions. In 1951-52, the 50 states and the District of Columbia provided an estimated 185 million in measurable aid, direct and indirect, to private colleges and universities.[112]

The Commission on Financing Postsecondary Education refers to 19 states in 1972 providing <u>direct</u> aid to private colleges.

Much of state aid to private institutions, however, is indirect, and the growth in state scholarship and grant programs, the primary mode in which state aid is provided to private colleges, has been in large part a development of the past decade, and within this decade, the greatest activity has been within the last five years. In October, 1971 the Chronicle of Higher Education reported that 13 state legislatures enacted new measures during the year to provide financial aid to private colleges or students in private institutions, and that several other states had broadened existing private-college aid programs or had increased their appropriations. The report indicated that 35 states were providing, some of them indirectly, aid to private colleges and universities.

There appears to be some interest in providing direct forms of aid. Minnesota and Oregon adopted in 1971 a provision whereby the state could "contract" with private colleges for the education of state residents. That same year Illinois, Maryland, and Washington adopted programs of direct grants to private institutions.[113] In 1971, 12 states also permitted private institutions to use the state's borrowing aurhority for bonds or loans to construct buildings, and for several years Indiana and Michigan have allowed residents tax credits against state income tax for contributions to private colleges.

While a total of 35 states provided aid in 1971, directly or indirectly to private colleges and universities, and while some among them had programs that had not yet been funded, by February, 1972, at least 22 states were operating state-funded scholarship programs and providing in 1971-72 a total of 279.4 million dollars to private institutions. Only 8 states had provided scholarship programs as recently as a decade before. Larry Van Dyne stated that "the dramatic increase marks the emergence of the programs both as a significant source of student financial aid and as an important means of indirect public aid to private colleges and universities."[114] Among the twenty-two states with comprehensive programs, the largest were in New York (76.2 million dollars in scholarships), Pennsylvania

(55.5 million), Illinois (39.4 million), New Jersey (22.0 million), and California (18.8 million.) Generally students could apply their grants at either private or public colleges. All but seven of the states (Connecticut, Massachusetts, New Jersey, Pennsylvania, Rhode Island, Vermont, and Wisconsin) limited the use of the scholarships to colleges within their own boundaries.

By late 1974 the number of state student-assistance programs had increased from 22 to 41 states and American trust territories. Nine others had programs pending in the state legislatures, and only four states--Alabama, Arizona, Hawaii and Louisiana, did not have any financial aid programs. (Alaska was not included in the study.) The aid programs increased grants from 364.2 million in 1973-74 to an estimated 456.9 million for 1974-75. And the funds went to 797,153 students as compared with 734,818 the year before.[115] The trend continued in allowing students to take their awards to either public or private institutions. Only about 4 percent of the 456.9 million dollars was restricted to use in public colleges and in only two states, Colorado and Virginia, were grants entirely excluded from private institutions. Three states accounted for over 50 percent of the student aid dollars, New York, Pennsylvania and Illinois. The new federal program of state student incentive grants, which provides matching funds to states to establish or expand scholarship programs, apparently had an influence in the expansion of the state-sponsored student aid.

The most authoritative source of information on the development of the state programs is provided in the annual reports of the National Association of State Scholarship Programs prepared by Joseph D. Boyd, Executive Director of the Illinois State Scholarship Commission. Boyd began issuing his reports in 1970. He notes that the first comprehensive state program for residents to attend public or nonpublic programs was probably developed by Maryland around 1825. New York established its program in 1913, Oregon in 1935, and then there were no further developments until California began its program in 1956.[116]

One of the more recent comprehensive overviews of the development of state aid to private education has been prepared by Richard Millard of the Education Commission of the States.[117] He refers to the 39 states that have authorized programs to make funds available to the private institutions directly or indirectly. (The 41 referred to in the previous paragraph includes trust territories) The 11 states which do not have specific programs include Wyoming with no private institutions, and with the exceptions of New Hampshire and Delaware, are states in which private higher education has not had a very large role. In addition to Wyoming, the states without specific programs are New Hampshire, Delaware, Hawaii, Arizona, Arkansas, Idaho, Mississippi, South Dakota, Utah and Nevada. Student aid is the predominant method of providing funds, and 35 states were reported to have authorized programs in this area, although in Colorado, Nebraska and Oklahoma the programs have not been funded. Some of the states such as California, Connecticut, New Jersey, New York and Wisconsin had developed fairly complex programs. In 15 states tuition equalization grants specifically for students in private institutions have been provided.

Some 18 states also are reported to provide direct institutional assistance, and some of these also provide student aid programs. There are a number of variations in the way in which the aid was made available. New York, Illinois, Maryland and New Jersey utilize formulas based on a number of students or number of degrees; Connecticut and North Carolina relate the funds to the grant or scholarship holders in the institution, while the remaining 12 states make grants to specific institutions or parts of institutions. Another approach has been the contract provision, whereby states could contract with private institutions for certain services. Some 16 states have developed contracts, usually, but not always, with specific institutions for specific programs. Eleven states also have provided bonding authorities which enable institutions to borrow funds for construction on the basis of tax-free bonds.

Millard notes that in addition to the major categories of student aid, direct institutional aid, contracts, facilities and education for health professions there were other provisions. Indiana and Michigan offer state income tax credits to individuals or corporations donating to private higher educational institutions. Illinois provides funds to encourage consortia among private or private and public institutions. New York has provided endowed chairs for scholars at private as well as public institutions. South Carolina makes it possible for private institutions to utilize the state purchasing office, and Virginia has exempted private institutions from the state sales tax while Michigan has exempted them from the gasoline tax. Minnesota has developed an interinstitutional television and library program that included private institutions.

In sum, by 1974 there were 41 states and territories providing some kind of student assistance program. The Commission on Financing Postsecondary Education observes that approximately 60 percent of the state tuition monies in 1972-73 went to students at private colleges and universities.[118] Leslie and Fife examined responses from samples of scholarship winners in New Jersey, New York, Illinois, California and Pennsylvania for one year in each state but variously among the states from 1971 through 1973. They concluded that in general the private sector appeared to gain more than did the public sector. In particular, the California and New Jersey programs, both designed to help the private sector, were successful in raising the demand for private higher education. In the other three, private institutions still benefited, but with a smaller percentage of the aid recipients.[119]

The Commission is of the opinion that continued growth in student aid programs is likely to occur for the next few years, especially "in the form of non-competitive grants for students attending public and private institutions."[120] The Commission also reports an interest in many states to increase aid to private institutions, both because representatives of private colleges and universities have become more effective in presenting their cause and because many private institutions have unused instructional capacity.

We would observe, however, that in states where both public and private institutions have stopped growing, the friction between public and private institutions has begun to increase significantly. Even at an earlier point in time the question of whether public funds can be used for private institutions has been the subject of several court tests. In September, 1963, the Horace Mann League, a non-profit organization, and nine individuals, suing as taxpayers, challenged the constitutionality of four statutes enacted by the Maryland state legislature which appropriated money for matching grants to four religiously-affiliated private colleges for the construction of facilities. These were Hood, a liberal arts college for women affiliated with the United Church of Christ, Western Maryland College, a coeducational institution affiliated with the Methodist Church, and Notre Dame College and St. Joseph College, each controlled by a Catholic religious order. The case was brought to the Maryland Circuit Court of Anne Arundel County. The Circuit Court held that the four grants did not constitute an unconstitutional aid to religion, that the Horace Mann League did not have standing as a plaintiff, and that the individual taxpayer plaintiffs did have standing. The case then went to the Maryland Court of Appeals, and the higher court upheld the decision of the lower court with respect to Hood College ruled that Western Maryland College, Notre Dame College and St. Joseph College were sectarian educational institutions and that their grant of state funds violated the First Amendment of the United States Constitution and the Fourteenth Amendment. The case then went to the Supreme Court, and on November 14, 1966, the United States Supreme Court refused to review the decision and in effect left the earlier decision of the Maryland Court of Appeals stand. The effect of the decision was to prohibit state grants to institutions that were clearly of a sectarian nature.[121]

Two of the colleges were in the news again in late 1974. In the meantime, Maryland had in 1971 passed a state law designed to aid 17 financially ailing private institutions in the state. The law granted aid according to the number of degrees each college conferred each year, but it banned the use of state funds for sectarian purposes. In October, 1974, the U.S. District Court by upholding the law made it possible for 1.8 million dollars in state funds to be given to the four church-related colleges. In making the decision, two members of the three-judge federal panel said that "the religious programs at each school are separable from the secular programs, and the latter are the only beneficiaries of state aid." The lawyer for the colleges commented that the suit represented the first challenge of a general-purpose aid program for private and church-related colleges.[122] Subsequently the case went to the Supreme Court of the United States and in a 5-to-3 vote the Court refused to block an order of the U.S. District Court that upheld a state law aiding the four colleges.[123]

The District Court had relied on the 1971 Supreme Court decision, Tilton v. Richardson, that held that federal funds could be used to help church-related colleges as long as the purpose of the grant was specifically secular and that its primary effect was not to advance or inhibit religion, and that the aid avoided "excessive government entanglement with religion." That decision had been made in

July, 1971, when by a 5-to-4 margin the United States Supreme Court upheld the constitutionality of federal construction grants to church-related colleges as long as the buildings financed with government funds were not used for sectarian purposes. That case originated out of a protest over grants made to four Catholic colleges in Connecticut under the Higher Education Facilities Act of 1963. The crucial point was whether the primary or principle effect of the aid advanced religion. The court did at that time, incidentally, overrule one portion of the 1963 law, a provision that after 20 years the buildings financed by the government could be used for any purpose, including a religious one.[124]

In another test, the United States Supreme Court in 1973 had upheld the constitutionality of limited state assistance for construction of physical facilities at church-related colleges. At issue was the South Carolina facilities act which allowed revenue bonds to be issued for both public and private colleges. A revenue bond had been planned for the Baptist College of Charleston, South Carolina. The state law allowed such bonds as long as the facilities were not used for sectarian instruction or as places of worship. Relying on arguments similiar to those in the Tilton v. Richardson case, the Court held that there was no basis to conclude that the College's "operations are oriented significantly towards sectarian rather than secular education"; even if it were a church-related college.[125]

We have already referred to the comments of the Commission on the Financing of Postsecondary Education regarding state assistance to private institutions. As the Commission sees it, the primary argument that has been given is that support helps to maintain private institutions and private institutions give a diversity in scope that would be less likely if there were only tax-supported institutions.[126] The same general position is taken by the Carnegie Commission in its report on the state's responsibility for postsecondary education. That report comes out in favor of "some state support of private colleges and universities." The statement goes on:

> Their graduates and the graduates of public institutions benefit society equally. The private institutions also provide diversity, innovative opportunities, models of interest in the individual students, and standards of autonomy useful to all higher education. We favor state subsidy of tuition costs for students who do not have financial ability to beat these costs, leaving to the Federal Government the basic responsibility to subsistence costs. Tuition charges vary much more from state to state than do subsistence costs and are much more responsive to state policy. We envision tuition generally rising with per capita disposable income with a gradual narrowing of the gap between private and public tuition. We also favor state contractual support for special endeavors, such as medical schools, and greater state use for construction grants or establishment of state-created bond-issuing agencies for loans for the benefit of private as well as public institutions. When this aid is not sufficient, we favor subsidies, on a per-student basis, of up to one-third of the subsidy given students in state institutions. A full effort should be made to preserve the private sector in a condition of health and vigor.[127]

And the report argues that in many states private colleges and universities, although representing a small portion of the enrollment, "have served as buffers against excessive political control of state universities and colleges." Independent institutions provide "a yardstick against which degrees of governmental control can be measured" and can serve "as a basis for effectively resisting excessive control."[128]

In a later report dealing with general issues in financing, the Commission argues that "states should increasingly support private institutions in ways that best preserve institutional independence, and that also make possible, in particular, the attendance of more students from low-income families."[129] This particular report urges that assistance be made in proportion to ability to pay. That is, there should be greater assistance to low-income students than to others. It is pointed out, however, that private institutions should be prepared to consider methods of accountability along with methods of public funding."[130] And it was at this point that the Commission also urges an increase in tuition costs at public institutions, together with availability of student aid for lower-income students. It is recommended that public tuition should rise to around one-third of the educational cost to bring it closer to the three-fifths of the educational cost that tuition covers at private institutions.[131]

William H. McFarlane has written a number of pieces dealing with state assistance to private institutions. Among other things, he notes "competitive excellence is uniquely characteristic of America's pluralistic structures for higher education. The variety of educational styles espoused by private colleges is especially needed today."[132] In a publication for the Southern Regional Education Board, he notes that inclusion of the private sector in state-sponsored systems "can also make available an extensive accumulation of educational facilities, programs, personnel and services, which have been established and maintained with little or no involvement of state funds."[133] In a subsequent monograph he explores the legal and political issues for state aid to private higher education and suggests that the controversy over state support to private institutions may involve "political attitudes more than legal uncertainties."[134] This latter volume provides a good overview of some of the issues that have been raised as well as an analysis of court decisions up to the date of the report.

One writer, however, warns private colleges against overdependence on state support. In her summary of the present condition and future prospects of private colleges, Carol Shulman calls attention to an observation by William Jellema that "private colleges that receive aid may be in difficulty if the aid does not continue, since they are still morally responsible for the education of their students if state aid lapses." Jellema suggests that an institution will be tempted to adjust its program on the basis of state aid and may find itself in an awkward position if aid declines. In addition, state aid may be tied to state-resident status, and this forces a college to concentrate on state students rather than on a more national student representation.[135] It is also pointed out that state private institutions and universities accepting state aid must also accept a greater degree of state involvement in their educational management.

At the 1973 meeting of the American Association for Higher Education, Ernest L. Boyer, Chancellor of the State University of New York, was much more outspoken in favoring state aid to private colleges. He pointed out, however, that the aid could not be given without restriction, and indicated that the funds should be given for "selected programs". He said that public aid to private institutions would be forthcoming "provided those colleges helped the state meet clearly defined, explicitly stated public needs and provided they operate such programs on the basis of standards equally comparable to those imposed upon the public institutions. This is the price that public institutions should be willing to pay for public support."[136]

The Federal Government as a Source of Funds.--In an essay published in the late 1960s, Roger Freeman recalled that in the early years of the decade there was among administrators in higher educational institutions a "basic and instinctive objection to the general proposition of federal support to higher education." He was referring in this comment to a statement made in 1962 by the Vice President and Controller of Tulane University. As late as 1964 a Committee on Financing Higher Education, sponsored by the American Association of Universities, strongly objected to the expansion of federal activities in higher education. And in 1967, Freeman himself was referring to the "American tradition of education as a state-local and private responsibility" being "more deeply rooted than it appears on the surface."[137] Ironically, at the same time that the Committee of the American

Association of Universities was objecting to the expansion of federal activities into education, the Education Facilities Act was passed, and few institutions subsequently passed up the opportunity to tap this new source of funds for capital expansion.

A decade later, the objection to federal involvement seems to have dissipated. Indeed, the change of attitude required less than a decade. At the meeting of the Association of American Colleges (AAC) in January, 1971, the leaders of the nation's private colleges organized to launch a campaign for increasing financial aid from the Federal Government. Meeting at the same time as AAC, the Council of Independent Colleges and Universities declared that it was going to work for new governmental aid to students and institutions. The President of the AAC commended the Council on its position and said that such an organization would help to put together "a grass-roots support not previously available in like degree through any of our existing Washington association."[138] By 1974 eight higher education associations were asking for substantial increases in funds from the Federal Government, including a program of direct grants.[139] It is obvious that the climate of opinion had shifted drastically. In the light of the worsening financial situation of higher educational institutions, both public and private, it is not difficult to understand why the shift in opinion had occurred.

For 1971-72, the Commission on Financing Postsecondary Education reported that the Federal Government provided 4.2 million dollars in institutional support. If one were to add to that figure the aid to students through various federal plans, an additional 3.9 billion brings the total federal involvement to 8.1 billion dollars, or 27.4 percent of total current operating income for the year.[140] A report for 1973-74 (fiscal 1974) shows a federal commitment of $9,334,954,000. Of this amount, almost one-fourth was expended in veteran's education and training.[141]

There could be little doubt that the Federal Government was heavily involved in financing postsecondary education.

The earliest federal assistance to postsecondary education began with the land policy developed under the Articles of Confederation. A resolution adopted in 1780 provided that lands ceded to the Confederation would be settled and developed in an orderly manner to form new states for the Federal Union. The Territorial Ordinance of 1784 provided that such lands would be divided into rectangular territories, each of which would have a territorial government as soon as 20,000 inhabitants were reported. The Northwest Ordinance of 1785 provided that prior to the sale of these federal lands--Virginia, Massachusetts and Connecticut in the meantime had ceded vast territories--they would be surveyed into townships six miles square and that Section 16 of each township should be reserved for the maintenance of a public school. Subsequently, the Ordinance of 1787, with the oft-quoted words, "Religion, Morality and Knowledge being necessary to good government and the happiness of mankind, schools and the means of education shall be forever encouraged," authorized land grants for the establishment of educational institutions, and the sale of lands to the Ohio and Scioto companies established the principle of granting lands for the support of higher education.

As one report observes, these grants provided the first instance of federal financial assistance for education, and "with this enactment, the National Government embarked upon a program of educational support unique among national governments in its commitments to State and local autonomy and in the responsibility it assumed for a public function of national interest."[142] The Federal Government has subsequently developed a variety of programs and procedures to support a broad range of educational undertakings. The procedures include "grants of land, financial grants and loans, allocations of surplus commodities and federally-owned property, operation of special educational programs and institutions, and the cost of services or contracts."[143]

After the Ordinance of 1787, the next significant federal move was in the first Morrill Act of 1862, in which grants of public land were made for the establishment and maintenance in the states of agricultural and mechanical colleges. A series of additional acts, including the second Morrill Act in 1890, provided needed additional support.

It was in the 1940s, however, that federal policy took an even more distinct turn in support of higher educational institutions. During World War II colleges and universities were called upon to provide military training programs and to undertake research and study in support of the war effort. With the Servicemen's Readjustment Act of 1944 (GI Bill) the Federal Government initiated the largest scholarship program in history. This Act, followed by subsequent legislation on behalf of disabled veterans, veterans of the Korean War, orphans of veterans and subsequent acts have resulted in nearly one-quarter of the current federal funds for postsecondary education being devoted to education and training for veterans.

Writing in the late 1950s, Robert Calkins assesses the development of federal assistance to postsecondary education at that point in history. He observed that nearly 36 percent of the Educational and General income of higher educational institutions was derived from the Federal Government in 1943-44, a slightly larger share than came from federal sources during the peak of the GI enrollment in 1947-48, and he contended that the government involvement was "important in preserving the fiscal solvency and the operating effectiveness of higher education during the war."[144] The new development for the late 1950s, Calkins stated, was the "phenomenal growth of federal grants and contracts for research." He could find no reliable estimate of the total amount of the funds employed at that time, but he suggested that it had risen to well over 400 million in 1959.[145] He noted the growing reliance of both public and private institutions on public funds. Richard Schrader estimated that while in 1963 less than half of the country's higher educational institutions had received federal support, by 1967 well over 80 percent of these institutions had received some form of federal support.[146]

In tracing the development of the pattern of federal support, we note that from 1959-60 to 1966-67 total support increased from 1.1 billion to more than 3.3 billion. Within these sums, Ernst Becker estimates that the proportion provided for research declined from 75.2 percent in 1959-60 to 66.2 percent in 1966-67. Support for construction of facilities had increased during this period, although by 1966-67 it had begun to decline.[147] Using these same figures, Schrader attributes only one-third of the federal expenditure to research and development. However, when one takes into account the funds spent on facilities and equipment, training grants, and institutional grants, all related to research in some way, his figures closely approximate those of Becker.[148] Schrader further generalizes that prior to the 1960s, the federal funds were almost exclusively on a "quid pro quo basis, with the government awarding funds to institutions to achieve some goal deemed important by Congress and the federal agencies." He notes, however, that a shift occurred during the 60's to federal support of higher education "as a national goal in its own right."[149]

As the Commission on the Financing of Postsecondary Education has sketched the development of federal support, it notes the expansion of interest from predominately research in the early 1960s into the concern for the preparation of teachers and college faculty, the improvement of instruction, and the development of instructional facilities. Spending for research began to reach its peak in 1965, and much of the federal support of students and institutions was at least partially consolidated in the Higher Education Act of that year. In the same year, the Health Professions Education Assistance Amendments provided aid for students in the medical professions and increased institutional aid for improving quality of teaching in those fields. The federal role has continued to broaden, "with increasing emphasis on student aid and on vocational training at the postsecondary level to promote access and choice for low-income students." The Commission has suggested that while each new federal program carried its own specific rationale or objective, the overall growth of federal support was justified on two grounds, either (1) as an extension of existing federal policy, or (2) a conviction that state and local governments would not be willing to provide adequate support for postsecondary education.[150]

It is difficult to form an overview of the various agencies that are involved and the types of programs that are funded through federal agencies. The Commission on Financing Postsecondary Education identified in 1972 approximately 380 separate programs of support administered by more than 20 federal agencies, and this excluded a number of programs and authorizations administered by the Departments of Defense, State, Interior, and Treasury, and several other agencies.[151] Schrader refers to more than 40 federal agencies as sources of funds to higher education. He notes, however, that 95 percent of all federal support comes from only eight agencies, and 99 percent of all federal support from only 13.[152]

Between 1952 and 1967, the dates used by Schrader to examine the pattern of federal support, there were some significant shifts among the several agencies in the proportion to which they were represented in the overall research grants. In 1952 the Department of Defense accounted for 70 percent of the research grants, while in 1967, this Department accounted for only 20 percent of the grants. In 1952 the National Institute of Health accounted for 10 percent of the grants and in

1967 for 33 percent of the grants. The National Science Foundation had increased from one percent of the grants in 1952--it was established in 1950--to 15 percent of the grants in 1967.

When considering all of the funds granted, the agency showing the most rapid growth in federal funds expended for higher education has been the Office of Education. The Commission on Financing Postsecondary Education shows that in 1972, the Department of Health, Education, and Welfare accounted for almost 45 percent of the total grants to higher educational institutions. The Commission includes in its total figures the amount for student aid, and shows federal expenditures of over eight billion dollars for 1971-72, considerably above the figures used in some of the other reports on federal funding. Table 8 is taken from the report of the Commission.

Table 8

Selected Postsecondary Education Outlays, by Major Participating Agencies, Fiscal 1972 (In Millions)

Agency	Amount	Percent of Total
Department of Health, Education, and Welfare.	$4,090.4	44.3%
Veterans Administration	2,006.5	21.7
Department of Defense	1,082.6	11.7
Department of Labor	898.2	9.7
National Science Foundation	390.2	4.2
Subtotal	$8,467.9	91.7%
All Other Agencies.	769.0	8.3
Total.	$9,236.9*	100 %

*Includes an estimated 1.1 billion in student aid that helps students meet their normal living costs. This amount is excluded from the figure of 8.1 billion reported in other sections of the Commission document.

(Table 8, cont'd.)

Source: Commission on Financing Postsecondary Education, Financing Postsecondary Education in the United States (Washington, D.C.: U.S. Government Printing Office, 1973), p. 107.)

The most recent report of federal expenditures for American higher educational institutions is for the year 1973-74. That report shows that the expenditures have continued to increase. For fiscal 1974, the Federal Government expended $9,356,371,000. The percentage distribution is as follows:

Table 9

Distribution of Federal Expenditures for Higher Education, Fiscal 1974, by Percentage of Total Expenditure

Agency	Percent of Total, Federal Expenditures, Higher Education
Office of Education	22.9
Student Assistance	(17.8)
Construction	(0.8)
Developing Institutions	(1.1)
Education Professions Development	(0.8)
Other	(2.4)
Other H.E.W. Programs	37.3
National Institutes of Health	(18.5)
Health Resources Administration	(7.7)
Social Security Survivors, Educational Benefits	(6.6)
Other	(4.4)
Other Agencies	39.8
Action: Peace Corps, Vista, University Year for Action	(1.1)
Agricultural Research and Extension	(4.4)
Veterans' Education and Training	(24.7)
National Science Foundation	(6.1)
Other	(3.5)

Source: "Higher Education's Share of U.S. Budgets," Chronicle of Higher Education, IX (February 10, 1975), p. 6. Total funds=$9,356,371,000.

It will be noted that the largest single expenditure item is veterans' education and training, which constituted 24.7 percent of the federal outlay in 1973-74. Note also that among the Office of Education funding items, the largest was for student assistance, 17.8 percent of the total.

Thus, we have the general picture of federal funding through fiscal 1974. While it would be possible to refer to many other analyses of federal funding, it would seem more appropriate for our concerns in this monograph to turn to the issues that currently have surfaced regarding federal funding.

Schrader points out that among the problems that have arisen in the increasing federal support of higher education, one of the greater difficulties has been created by a system that centers on support of individual research projects. In effect, the result has been that the Federal Government has been buying scientific ideas on a piecemeal basis rather than investing in the educational process, with the consequent effects: "(1) it has encouraged the brilliant minds in the scientific laboratories to concentrate on research and to dissociate themselves from the students; and (2) it has allowed the military to extend its dominance over large areas of university thinking through mission-oriented research projects." While Schrader's judgment might be debated on both points, it is worth while noting some of the other effects that he sees in increased federal financing of higher education. These include: instability, where cutbacks and shifts in funds effect individuals and institutions; confusion over accountability, where researchers get caught between the institution and the funding agency; loss of control on the part of the institutions; uneveness of support; mismatch between the traditional departmental structure of the institution and the social objectives of the federal agencies; instability of income for the institution; lack of focus, since there is no single federal focus of concern; loss of integrity, where colleges and universities are pressured into goal-oriented research that could threaten the integrity of the basic institutional character.[153] Yet, even if these are the disadvantages, and there are many who would agree with Schrader, the fact of federal support, as political and uneven as it may be, seems to be with us.

In one of the first of the Carnegie Commission reports, Ronald Wolk discussed five alternative methods of federal funding: categorical aid, aid to students, grants to institutions, tax relief, revenue sharing.[154] Most of the federal support in the past has been in the form of categorical aid, through grants, contracts, or loans in support of a specific project or goal. Wolk contended that virtually all of the aid in 1967 could be described as categorical aid, in the sense that the Federal Government had designated the funds to be spent in certain areas which were deemed to be of national concern, that there was no "completely unrestricted or undesignated support to colleges and universities." As we have already noted, the major portion of the categorical aid was in the form of research grants. (Wolk also listed funds for facilities as a form of categorical aid.)

The second form of support, aid to students, had really begun with the GI Bill in 1944, and by 1967 additional student aid programs had been developed. In 1958 the National Defense Education Act provided for undergraduate student loans and graduate fellowships and loans. The Federal Government provided 90 cents for every dollar loaned, and the institution contributed ten cents. The loans included a forgiveness feature if students became teachers. We have already referred to some of the issues that have recently arisen regarding the forgiveness feature.[155] The Higher Education Act of 1965, Title IV, provided the first federal scholarships for undergraduates under the Economic Opportunity Grants, under which needy qualified students could receive $200 to $800 in the freshman year and $200 to $1,000 each succeeding year, if the student remained in the upper half of his class.

This same act also provided grants to institutions to assist in college work-study programs for students who needed part-time work in order to continue their education. The legislation provided that the government would pay 90 percent of the wages and the institution would pay 10 percent initially, with the federal share decreasing to 75 percent in 1967-68, but this provision was subsequently delayed. The Act also introduced the guaranteed loans for college students, under which the Federal Government would pay six percent interest on the loan during the time the student is in college and three percent during the repayment period.

Wolk observed that in one sense, institutions were already receiving aid in the form of institutional grants. The National Defense Graduate Fellowships and funds awarded by other federal agencies generally carried with them an institutional supplement to offset tuition and educational costs. Also, the National Science Foundation awarded grants under several different programs. Title III of the Higher Education Act of 1965 authorized grants to developing institutions. Since the late 1960s there have been a number of proposals for additional direct assistance to institutions. Among them, the Miller Bill, sought to provide funds for advancing science by providing institutional grants based upon a formula related to institution's participation in basic research, the number of high school graduates in the state and the number of advanced degrees awarded by the institution. In general, however, little momentum has been developed in favor of institutional grants.

In the fourth area, tax relief, Wolk notes that colleges and universities have benefitted from tax laws over the years. As non-profit educational institutions, they generally do not pay property taxes, income taxes, or capital gains on their investments. Institutions have also benefitted from philanthropic contributions allowances that permit individuals to make deductible gifts.

There have been a number of proposals to expand tax benefits by providing benefits directly to parents by allowing them to claim extra personal exemptions or increase standard exemptions or to claim tax credits for educational expenses up to a certain maximum.

Under revenue sharing, Wolk notes that pressure had been building for returning to the state's significant portions of the national revenue to enable them to meet their governmental responsibilities. Subsequently some action was taken in this direction, but revenue sharing as a significant element in aiding higher education is yet to be developed.

Wolk's volume was issued as a discussion piece, to raise some of the issues relating to federal funding of higher education. The first in the series of Carnegie reports was issued shortly after and entitled "Quality and Equality: New Levels of Federal Responsiblity for Higher Education." In that report and a supplement issued two years later, the Commission advocated massive increases in federal support, from 3.5 billion in 1967-68 to 13 billion in 1976-77.[156] There were some differences in the items included between the original report and the 1970 supplement, but both placed heavy emphasis upon directing federal funds through student aid programs. In the original proposal it was recommended that slightly under one-third of the federal aid be in student aid programs, almost as much in research; approximately one-fourth in cost-of-education supplements; and the remainder in construction, a foundation for the development of higher education and in special programs. The 1970 supplement recommended an increased proportion going to student aid funds, nearly 40 percent, somewhat of a reduction in research, and approximately the same in cost-of-education supplements.[157]

It was through the cost-of-education supplements that the Carnegie Commission recommended direct grants, based upon the number of federal grants holders enrolled.

The Commission also advocated construction grants and special purpose grants--increased funding of aid to developing institutions, library support and international studies.

The Carnegie Commission took the position that "first priority should be given in achieving equality of educational opportunity," and that such a goal was best to be achieved by eliminating barriers to equal access to higher education and to progress within higher educational institutions. One of the proposals for student aid included a recommendation for a federal contingent loan program whereby students would repay federal loans through a fixed percentage of his income. Earlier, a panel headed by Professor J. Zacharias of M.I.T. had proposed the development of an Educational Opportunity Bank.[158] The so-called Zacharias Plan was not well received, but a report from the Secretary's Office of the Department of Health, Education, and Welfare proposed a National Student Loan Bank, in which the repayment for long-term loans would be at a fixed schedule rather than dependent upon the individual's income.[159] Other approaches to the contingent loan plan have already been discussed in this monograph.[160]

In 1972 the Carnegie Commission developed a special set of proposals dealing with general institutional support. In advancing the arguments for such support, the Commission reiterated its earlier stand that basic support and responsibility for higher education should remain with the states and private initiative, that students should be given maximum freedom in choosing institutions to attend, that federal aid should not encourage states and private sources to reduce their support, and that the autonomy of institutions should be preserved.

The 1972 Carnegie report suggested six approaches to institutional support, all related in some way to the Equal Opportunity Grants, which had been established under the Higher Education Act of 1965. The Commission had already advocated increased funding of the Educational Opportunity Grants. Among the arguments advanced for institutional grants were the following: (1) additional operating funds based on those received from state and private sources were necessary to improve and/or maintain the quality of instruction; (2) under the categorical aid programs, many colleges were bypassed, and institutional grants would provide broader assistance to institutions worthy of support; (3) certain levels and types of educational programs essential nationally could be assisted in direct grants; (4) direct grants would encourage educational innovation.[161]

In the next report, issued in 1973 as a comprehensive review of financing policies, the Carnegie Commission came out even more clearly for what it called a "redistribution in total governmental costs from the states and localities to the Federal Government." It took the position that the Federal Government has a larger and more expansible income, that it has a special interest in and responsibility for providing equality of opportunity, and that the Federal Government has special responsibilities for basic research.[162] Estimating that the federal share of total governmental costs (federal, state and local) in 1973 was just under 43 percent, the Commission urged that by 1983 the federal share be at the 50 percent level. The Higher Education Act of 1972 provided for Basic Opportunity Grants, and the Commission, while recognizing the new program as "a major step in the direction of removing financial obstacle to access to college," asked for full funding of the program and raising of the ceiling (then $1,400) on the grants.

The report from the Office of the Secretary of H.E.W., to which reference has already been made, pointed up that the major issue in federal aid to higher education revolved around the relative emphasis that should be given to student aid versus institutional aid. The report noted that both types of aid were needed and that it was unlikely that the Federal Government would limit itself to one or the other. It noted, however, that:

> The choice between emphasis on student aid and emphasis on institutional aid depends partly on the weight given to different objectives for higher education. Student aid is most appropriate if a high weight is given to the objective of improving equality of opportunity for higher education. Aid to students can be directed to those students from low-income families who need financial aid to attend college.... An equal sum spent on institutional aid, by contrast, would have far less effect on equality of opportunity...if one is concerned that the quality of higher education is suffering because not enough resources per student are available to institutions, then direct institutional aid may be the most effective way to alter the situation. Student aid channels more resources per student to institutions only indirectly by enabling them to raise tuition more than they otherwise would have.[163]

The report ultimately came to emphasizing two major commitments, the promotion of equality of opportunity and the strengthening of graduate education and research. In both instances, the report called for aid to students rather than to institutions, although it also suggested a flexible program of institutional development grants, administered by the National Science Foundation, the National Institutes of Health, the Office of Education and the National Foundation on the Arts and the Humanities. In addition, it recommended that the cost-of-education allowances for federal graduate fellowships should be increased.

The report of the Committee for Economic Development in late 1973 also emphasized that the Federal Government should make grants to students and recommended a decrease in categorical institutional aid from the Federal Government and a significant increase in aid to students.[164] The Committee called for more efficiency in the management of institutions and an increase in the tuition paid by students in public institutions.

The National Comission on the Financing of Postsecondary Education, also reporting in late 1973, did not make a specific recommendation on funding patterns, but analyzed the implications of eight different financing plans, ranging from shifting the responsibility of financing postsecondary education from public and private sources to students and parents to increasing in significant ways public aid through providing greater assistance to students.[165]

Perhaps the most comprehensive review of the positions in current debate over federal financing was made by Howard R. Bowen at the annual meeting of the Association of American Colleges in January, 1974. Bowen noted that in the late 60's considerable attention was given to the possiblity of direct institutional grants from the Federal Government. In 1967 or 1968 virtually all of the major institutional associations went on record favoring institutional grants, and the "common plea was to retain all the then-existing forms of federal aid and add institutional grants--the new money to be distributed according to formulas yet to be devised." Bowen observed:

> The proposal for federal institutional grants was based on three tacit assumptions. One was that expenditures would continue to rise rapidly because of growing enrollments and rising costs. Another was that, though federal categorical aid was desirable, it did little to meet the basic operating costs of institutions and unrestricted funds were needed as well. The third assumption was that the steady rise of tuitions would be on principle socially harmful.[166]

Within this framework, the search then began for suitable formulas to be used for distributing federal aid.

Within the next few years, however, according to Bowen, the focus began to shift from general institutional aid to establishing as the major goal for new federal programs the encouragement of needy and lower-middle-income students to attend college. The principle was clearly expressed in the Higher Education Amendments of 1972. During the early 1970s, according to Bowen, three proposals emerged: (1) higher education could and should be more efficient, and the continuing increase in cost should be slowed down; (2) the tuition differential between public and private institutions should be decreased and support of public colleges and universities should come relatively more from tuitions and relatively less from taxes; (3) long-term loans of substantial amounts should be employed for financing students.[167]

Most recently, according to Bowen, the new focus has been sharpened by six recent reports, the report of the Committee on Economic Development, the report of the National Commission on the Financing of Postsecondary Education, two Carnegie Commission reports, the report of the National Board on Graduate Education, and the second Newman report. In summarizing the six reports, he found the following emphases: (1) the efficiency of higher education should be improved; (2) tuition in public institutions should be raised to perhaps a third or even half of instructional costs; (3) access should be available to all qualified students, and student aid should be extended in the form of grants to low-income students and loans to low- and middle-income students; (4) loans should become a more prominent part of the student aid program and practical long-term loan programs should be invented and adequate capital to fund them should be raised; (5) student aid should be portable; (6) private institutions should be assisted by any of several types of tuition-offsets which would have the effect of narrowing the tuition gap, and possibly by institutional grants; (7) tax incentives for charitable giving should be strengthened; (8) federal fellowships and traineeships for graduate students should be restored at least in part, and basic research should be supported at rising levels; (9) ways of financing life-long and recurring education should be developed.[168]

In 1971 the American College Testing Program published the results of an invitational seminar held the previous year in Washington, D.C. In reflecting on the various papers, one commentator at the seminar argued that at that time the strongest political pressure on behalf of aiding higher education in Washington favored increased funding of existing programs, and that while there was some support for general aid, it probably did not have adequate political support to establish any programs.[169] Another commentator noted that although most persons seemed to favor a continuation of federal aid to students with a sizeable grant program, "the major obstacle to the development of a federal strategy for aiding higher education was found to be the division that exists in the relative emphasis to be given to direct institutional aid and loans to students."[170] And while direct institutional aid might enable institutions to hold the line on tuition colleges and provide a larger measure of autonomy, it was also viewed as a relatively expensive method of providing federal assistance in that it aided those who could pay as well as those who were unable to do so.

While Bowen's summary at the meeting of AAC included references to the report of the Newman panel, it is worth singling out some of the specific recommendations of the task force report on "National Policy and Higher Education." The task force held that the principle role of the Federal Government in postsecondary education lies in: (1) preserving an open society and the conditions necessary for a free competition of ideas; (2) overcoming inequities facing specific individuals and groups; (3) and supporting research, development, and other "strategic interventions" of the type that no other level of government can make. For assisting in preserving an open society and free competition, the Newman panel called for matching federal funds for state scholarship and fellowships programs, partial support for a state fund for project grants to support innovative educational programs in public and private institutions. In support of equalizing educational opportunities, the group called for support of new approaches to education in combination with continued student aid. The report also called for the Federal Government to serve as a catalyst and source of leadership for reform and innovation.[171]

While, as the previous references have indicated, the mood in Washington seems to have shifted from advocating general institutional support to favoring student support, a series of reports from Washington during mid and late 1974 presents an interesting picture. In May, eight higher educational associations urged Congress to appropriate at least $200,000,000 in general aid during 1974-75. The request was included in a 2.7 billion "counter budget" presented to the House of Representatives subcommittee handling appropriations for the Department of Health, Education, and Welfare. The eight associations involved were: American Council on Education, American Association of Community and Junior Colleges, American Association of State Colleges and Universities, Association of American Colleges, Association of American Universities, National Association of State Universities and Land-Grant Colleges, National Catholic Educational Association, and National Council of Independent Colleges and Universities.[172] By June, the possibilities for enacting a legislation for direct aid to colleges and universities seemed fairly remote.

The Higher Education Amendments of 1972 had adopted the principle of giving funds to institutions on the basis of the number of students receiving federal aid enrolled in those institutions but no funds had been appropriated for the program. When in June, college administrators pressed for providing funds for direct aid to colleges, they were greeted with "a cool reception" and Representative James G. O'Hara, Chairman of the House Special Subcommittee on Education, told the educators that there "seems to be rather a remote possibility of funding that program in the near future," and he went on to say that he was dubious about institutional aid.[173]

In August, however, two members of the Senate Appropriations Committee, Senator Robert C. Byrd and Senator Warren G. Magnuson, proposed that $50,000,000 be added to the appropriations bill for the Department of Health, Education, and Welfare for the current fiscal year. Senator Byrd pointed out that the funds would provide some measure of relief to both public and private institutions, based on the amount of federal support to students enrolled in the institutions.[174] Subsequently, although the Senate Subcommittee recommended $50,000,000 more for the Department of Health, Education, and Welfare than had been recommended by the House, the recommendation for institutional-aid grants was rejected by the Senate Appropriations Subcommittee.[175] Yet, apparently, the idea of institutional aid was still alive, and the Higher Education Amendments of 1972 provided at least some basis for future consideration.

Later in 1974, Senator Lloyd Bentsen of Texas announced that he would sponsor a proposal to give taxpayers a tax credit on money they saved for their children's or their own post-high-school education. His proposal would relate tax credits to money placed in special "educational savings plans." According to his proposal, a taxpayer could contribute up to $250 annually to such savings plans for every dependent and subtract 20 percent of that contribution from his federal income tax.[176]

Voucher systems have also been proposed both at the state and federal levels. In an article in Change magazine in October, 1973, Henry Levin contended that the pattern of public funding of higher education was moving toward a drastic revision, that the greatest share of public support for colleges and universities had been in the past granted directly from federal and state governments to the institutions themselves but that in the future the major share of such funds would be given to students to use at the collge or university of their choice. We have already noted the apparent swing of the Federal Government to various types of student aid programs, but Levin refers to the voucher system as a possible means of increasing student aid. To him, the Higher Education Amendments of 1972, with a provision for the Basic Educational Opportunity Grants of up to $1400 per year, were not unlike the movement in the state of Ohio for using a loan program to replace much of the present public support of higher education and the Wisconsin plan for the combination grant-loan program.[177]

Referring also to the National Commission on Postsecondary Education and the 1973 report of the Committee on Economic Development, Levin found reflected in the various plans of the Commission a substantial shift from institutional support to student funding. The several plans emphasized providing students with grants or loans which could be applied to tuition and other costs of attending either public or private institutions, Levin contended that such an approach bore similarities to the much discussed educational voucher system that had been suggested for elementary and secondary schools. The rest of his article was given to weighing the impact of a voucher system, which he apparently sees in one form or another as a distinct possibility in the future.[178]

In September, 1973, a panel of the President's Science Advisory Committee recommended that young people at the age of sixteen be given educational vouchers equivalent to the average cost of four years of college. The vouchers would be usable for vocational training as well as higher education and could be used at any time in life following the completion of compulsory education at age sixteen. The Committee argued that an educational voucher system would "equalize the subsidy to all youth that now goes only to those who attend college" and would provide a variety of options for young people not presently available.[179] While the Office of Economic Opportunity in 1971-72 provided preplanning grants to three school systems for a preliminary design of an educational voucher system at the elementary and secondary levels, the voucher system has not gained great headway either at the elementary and secondary level or in postsecondary education.

Many different proposals continue to emerge, but the basic orientation at this point in time in federal funding of higher educational institutions seems to lie in finding the most effective way of providing student aid. Representative James G. O'Hara of Michigan, who took over the House of Representative's Higher Education Subcommittee in 1973, has emerged as one of the leading spokesmen for maintaining low tuition and providing student aid. A report in the Chronicle of Higher Education in January, 1974 indicated that O'Hara was giving top priority to student aid. In late 1974, Change magazine referred to the continuing efforts of the Congressman to emphasize low tuition and student aid. In his address to the American Council on Education in October, 1974, O'Hara said that he would "seek to construct a student aid system that recognizes that low tuition has done more for improved popular access to postsecondary education than all the student aid programs put together. I will certainly give no aid and comfort to a system which tacitly encourages the raising of tuitions as a means of maximizing an institution's piece of the federal pie."[181]

Other Sources of Income.--Endowment income has provided a decreasing proportion of the Educational and General income over the years, decreasing from 17.4 percent in 1909-10 to less than 3 percent in 1969-70. William Bowen's review of the financing of major private universities indicated that for Chicago, Princeton and Vanderbilt, whereas endowment income constituted 43.5 percent of their Educational and General income in 1924-25, it had fallen to 13.4 percent of the income in 1965-66, and for all private universities the shift was from 13 percent in 1955-56 to 8.8 percent in 1963-64.[182]

June O'Neill's analysis shows the decrease in portion that endowment earnings constitute of Educational and General funds to be even more striking. On the basis of her analysis, endowment earnings constituted 13.5 percent of the income for all institutions in 1939-40, but this had dropped to 2.8 percent in 1967-68. For private institutions, the decrease was from 25.2 percent in 1939-40 to 6.6 percent in 1967-68.[183]

In June, 1974, a preliminary report from the National Center for Educational Statistics indicated that total dollar amount in endowment funds of the nation's colleges and universities had decreased slightly, by 1.1 percent, during 1972-73. While the bulk of the endowment funds is still with private colleges and universities, 12.6 billion in 1973 in comparison with 2.5 billion for public institutions, the funds for private colleges and universities had decreased by 1.6 percent, while those for public institutions had increased by 2 percent, giving an overall decrease of 1.1 percent.[184]

Jack Magarrell reported in late 1974 on another facet of the shrinking endowment fund problem. Beginning in the late 1960s a growing number of higher educational institutions adopted a "total return" approach to investment and spending of endowment funds. Under the total return concept, increases in stock value were viewed as spendable income, and such "new" funds provided a financial boost for hard pressed institutions. With declining stock prices rather than increasing stock values, however, the idea of total return is being reexamined. The Ford Foundation had earlier (in 1969) sparked interest in the total return approach through two reports on college investment policies.[185]

While endowment funds will continue to be significant for some institutions, it is highly unlikely that such funds will provide significant additional income for institutions in general. This by no means suggests that endowment funds are inconsequential, but it does suggest building of endowment as such is not likely to provide a large measure of increased funding for current needs of higher educational institutions. Endowment perhaps becomes a reserve or a basis for funding special projects that could not be carried by other current income.

Gifts and grants from private sources constituted approximately 6 percent of the Educational and General income in the early 1970s. Using the gross data reported in the periodic studies issued by the U.S. Office of Education we have noted an increase in the proportion through the 1950s and a slight decrease in the 1960s. The table below shows the way in which the gifts and grants from private sources have changed as a percentage of the Educational and General income.

Table 9

Gifts and Grants from Private Sources as Percentage of Educational and General Income

Dates	Gifts and Grants Percentage of E. and G.
1909-10	4.85
1919-20	4.35
1929-30	5.35
1939-40	7.05
1949-50	6.40
1959-60	8.05
1963-64	7.05
1967-68	6.15
1969-70	6.07

The more refined calculations of O'Neill, although for a shorter period of time, indicate the same general trend. In 1939-40, gifts and grants from private sources constituted 7.7 percent of Educational and General income, increased to 8.8 percent in 1953-54, began to decrease slightly during the 1950s and had dropped to 6.4 percent in 1967-68. For private institutions, the change was from 13.8 percent in 1939-40, up to 16.6 percent in 1953-54, decreasing during the rest of the 1950's and dropping to 12.7 percent in 1967-68.[186]

It should be noted that while the data above show a decrease in the <u>proportion</u> that gifts from private sources constitute of the Educational and General income, the dollar amounts contributed each year had been increasing more or less regularly until 1969-70. In 1969-70 there was a decrease not only in the proportion that private gifts constituted of Educational and General income, but there was also a dollar decrease. The Council for Financial Aid to Education, reported that the income for 1969-70 was $20,000,000 less than for the previous year. This was contrasted with an estimated 15 percent gain in the previous year. The picture was a mixed one, since support for private, four-year institutions dropped the greatest amount, while support for public, four-year institutions rose by almost 17 percent.[187]

The following year, however, the situation changed, and gifts from private sources reached a new high of 1.86 billion for 1970-71. The major source for the growth was the increase in giving by alumni and by "non-alumni individuals." Yet, within this overall increase, giving from business corporations declined, the first time that this segment had contributed less than in a preceding year over a period of some 12 years. Between 1956-68, corporate contributions to education had increased on an average of 10.8 percent a year.[188] The sources of giving have, however, shifted from year to year. In 1972, based on a review of the experience for 1970-71, the prediction was for substantial increases in coming years from foundations and bequests.[190] The following year the total from bequests was down, while foundations, as a matter of fact, did raise grants by 25 percent.[191]

For 1972-73 the largest sources of gifts were individual friends of the institutions and parents of students. Private giving to public four-year colleges was also up significantly, 20 percent over the previous year.

In the fall of 1974, the situation among the foundations, earlier expected to provide a major source of increased giving, was far from optimistic. In September, 1974, Jack Magarrell wrote that foundation funds "have been caught in the stock-market dive, just when higher education's needs for foundation support are increasing rapidly."[192] Carnegie assets had dropped to 222 million, down from 342 million a year ago. The assets of the Rockefeller Foundation valued at 840 million at the end of 1973, had fallen in nine months to less than 600 million, and the Ford Foundation assets had dropped from 3 billion to 2 billion. Magarrell reported that the situation was viewed in such a serious light that McGeorge Bundy, President of the Ford Foundation, had asked the Foundation's trustees to consider the possibility of dissolving the Foundation and distributing the assets.

While the assets were down, the earnings of the foundations had remained fairly stable, but since many foundations during the years of rising stock market prices used some of their capital gains for grants, they found themselves in a position of needing to sell stocks to raise the same amount of money, which further reduced the shrinking assets. Most of the foundations, however, were holding firm, and the Carnegie Corporation even suggested that it would try to be a little more generous, in spite of the stock market situation. The Ford Foundation, however, indicated that it would be cutting back on its grants, from a current fiscal year's budget of 208 million to a goal of 100 million for fiscal year ending September 30, 1978.[193]

Balancing the cutbacks or a steady-state in foundation giving may be a predicted increase in corporate support during 1973-74. At least that was the tenative conclusion of the Council for Financial Aid to Education in late 1974. The optimism was based upon an informal survey among a sample of leading companies in which it appeared that in spite of the stock market situation, profits had been increasing. On the basis of past experience in relating profits to contributions, the Council estimated that gifts from business could reach more than 500 million dollars in 1973-74, 75 million dollars above the contributions for 1972-73.[194] The president of the American Council on Education, Roger Heyns, was less than convinced by the projections of the Council for Financial Aid to Education, as he observed that in the presence of rapid inflation, "corporations may not continue to maintain their traditional relationships between profits and charitable giving."

And at least one businessman, David Packard, Chairman of the Board of Hewlett-Packard Company and former Deputy Secretary of Defense, was arguing that corporations should no longer make unrestricted gifts to private colleges and universities. Arguing that universities harbor faculty members and students hostile to corporate interests, he asked corporations to focus money and energy on schools and departments that are strong and that "contribute in some specific way to our individual companies or to the general welfare of our free enterprise system."[195] He did not gain a large following, and Allen Pifer, President of the Carnegie Corporation, and McGeorge Bendy, President of the Ford Foundation, in particular criticized Packard's position.

Toward the close of 1974, another report in the Chronicle pointed out that American universities are apparently entering the business of seeking funds abroad. It was reported that American institutions were making contracts in Tokyo and Teheran, and an official of the Council for Financial Aid to Education indicated that the organization was trying to find a way to make clear to the oil-rich countries of the Middle East and other countries that send students to the United States that paying tuition is not enough, that the governments and businesses have a responsibility to support the institutions that supplied or educated personnel. The story reports in particular on the activities of the University of Michigan, Stanford University, Yale.[196]

An early 1975 issue of the Wall Street Journal reported how a number of smaller colleges offering predominately liberal arts programs have branched out into career education. Lambuth College in Tennessee has introduced a project in cooperation with Holiday Inns. Cazenovia College was almost ready to close in the spring of 1974, but has now increased enrollement by branching out into courses for investment managers, horse breeding, and is even renting the college playhouse to a commercial movie-theater owner. Marymount Manhattan College teaches technical writing, English composition and other topics on the premises of Pfizer Inc., the New York Pharmaceutical firm. LaVerne College in California operates dozens of continuing education centers from Hawaii to Florida. Most of the colleges indicate that a move into career education represents a permanent change in the orientation of the school.[197]

Not only are colleges taking other approaches to the curriculum in order to compete in the market place, but some institutions have moved into a broad range of business operations. U.S. News and World Report, in commenting on the development, says:

> Colleges and universities, adjusting to an unprecedented financial bind, are coming up with new ways to produce more income from land, buildings and other campus facilities.
>
> Many institutions have developed programs that pay off not only in money but in improved community relations.
>
> Some are opening their libraries, restaurants, bookstores and recreational rooms to the public for a modest fee.
>
> Others are transforming campuses into low-cost summer resorts between school terms.[198]

Universities are sharing stadiums with other groups. A number of colleges are forming subsidiary corporations to invest college funds in revenue-generating property. For example Florida Institute of Technology in Melbourne has established a firm called University Enterprises, Inc. to market spin-offs from research and development at the Institute. Knox College in Illinois in 1969 established several corporations to administer an investment program in commercial property, a resort complex in Utah and a racetrack, the latter of which has been sold. Hood College is reported studying the feasibility of a $7,000,000 facility that would combine housing for students, commercial offices and apartments for rental to the general public. Mankato State College in Minnesota and the University of Alabama, Tuscaloosa have leased entire dormitories to organizations engaged in mental rehabilitation. These are just a sample of the programs underway. From another source, we learn that Purdue University has turned used computer cards into a source of income.[199]

Reducing Expenditures

As we have already noted, the apparent turnaround in financing of higher education observed by Cheit and others appeared to be less a matter of securing new sources of income and more a matter of reducing expenditures.[200] Howard Bowen's assessment of the current state of the debate over financing higher education, to which we have already referred, noted that during 1973 one of the top concerns was that the efficiency of higher education should be improved. It is worthy to note, however, that in his summary eight of the concerns related to increasing income and only one to improving efficiency.[201]

But there are some who have suggested that maximum economies have already been achieved and that very little in the way of reduction can be accomplished. The Reverend Robert J. Henley, President of Georgetown University, in May, 1974, speaking to the Association for Institutional Research, contended that another financial crunch for private education was on the way, because in the first phase of the financial crisis most institutions had already put their instructional budgets through the wringer, and there simply was very little more in the way of economy that could be achieved.[202]

The answer is probably at some point between, namely that economies are still possible, but there are limits to economies that can be effected. As the Carnegie Commission report on more effective use of resources indicates, "higher education must work on both sides of the equation--more money and more effective use of it. It should both obtain the money it really needs and maximize its output from this money."[203] That particular report documents the way in which the unit cost, cost per student, has consistently increased in higher education. Referring to data compiled by June O'Neill, the report shows that educational cost per credit hour has consistently increased more rapidly than the consumer price index from 1953-54 to 1966-67. For this period of time as a whole, educational cost rose at an annual average rate of 3.5 percent, as compared with the rate of 1.6 percent for the consumer price index, a difference of 1.9 percentage points. And among private higher educational institutions was 4.8 percent, or 3.2 percentage points more than the consumer price index. The difference in behavior of cost between public and private institutions was particularly pronounced for the universities.[204] The Commission report goes on to show differences between upper division and lower division work and between graduate and undergraduate work, with the highest average cost per student being considerably higher at the graduate level.

An earlier report issued under the auspices of the Carnegie Commission had documented the same phenomenon. Bowen's study of The Economics of the Major Private Universities had shown that direct cost per student had increased more rapidly than the economy-wide cost index, except during the wartime inflation years of 1915-1920 and 1940-48. In the "normal" peace-time periods, Bowen observed that:

> The cost per student rose substantially more than the economy-wide cost index. Indeed, the remarkable thing about our results

> from these three peace-time periods is that the numerical values of the compound growth rate for both our economy-wide cost index and our index of cost per student are so similiar--the former ranging from 1.5 to 2.2 percent per annum, and the latter ranging from 7.5 to 8.1 percent per annum.[205]

Other economists had provided similar documentation, and although the different reports vary somewhat in describing the percentage increases in student cost, all show that student costs have grown more rapidly than the consumer price index. Some have argued that the increase in cost is endemic to the educational process. Whereas in industry, the output per man hour has gone up, in education, the output, if anything, has decreased. The output per man hour in labor during the course of the 20th century has gone up at a remarkably steady rate, while higher educational institutions have actually decreased in productivity. Higher educational institutions have benefitted from some of the technological innovations, but the trend has been toward lowering teaching loads, enriching programs, multiplying activities. Education participates in the general category of industry in which increases in productivity come more slowly than in the economy as a whole and in which the cost per unit may be expected to increase more than costs in general.

While this line of reasoning may have been acceptable in the past, it is being challenged currently, and the Carnegie Commission, among others, has not only called for more efficiency but has contended that more efficiency is possible. The Commission argues that two general procedures are open, (1) reducing the total number of years of student training and (2) reducing the cost per student hour. It has contended that by 1980 it would be possible to reduce expenditures by 10 percent by decreasing the length of time in college and by another ten percent in a variety of other ways.[206]

In detailing its argument in favor of cost reduction, the Commission contends that the principle sources of savings include the following: (1) reducing the number of students by accelerating programs and reducing the number of reluctant attenders; (2) making more effective use of resources in relation to students in attendance by halting the creation of new Ph.D. programs, achieving minimum effective size for campuses now below that size, moving toward year-round operation, cautiously raising the student-faculty ratio reexamining the faculty teaching load, improving management by better selection and training of middle management, creating more alternative programs off-campus, and establishing consortia among institutions.[207] It argues against what it considers unwise though tempting short-run economies such as reducing necessary maintenance, reducing library expenditures for new books and journals, and failing to increase student aid as tuition and fees increase. The Carnegie Commission also calls for improving the budget-making process by more effective analysis and programming.[208]

The themes in the Carnegie Commission report have been expressed in various ways and with different emphases in virtually all of the other approaches to cost-cutting. Sidney Tickton, who more than a decade earlier had popularized long-term budget projections in the Ashford College case, continues to emphasize the necessity for more effective planning.[209] In an article in Compact, the journal of the Education Commission of the States, Tickton points out that there are only basically two approaches to improving the financial conditions, to increase income and to hold down costs. To cut or hold down cost can be done primarily through higher student-faculty ratios and more efficient use of space, but neither of the approaches had had much impact, Tickton notes, because:

> Faculties have wanted lower faculty-student rations. Claiming lower ratios means better quality education, though this certainly is a matter for debate...No one anywhere really has wanted better use of space. Presidents, fund raisers, donors, government officials have all wanted buildings for every purpose at every location--and without any real regard for the future cost or amortization of plant.[210]

He argues, however, that regardless of past attitudes, current pressures are forcing institutions to deal with both student-faculty ratios and more efficient use of space.

The plea for more effective planning may be found in a score of reports. James Harvey summarizes a number of the reports on institutional planning available through March, 1971.[211] The Ohio Board of Regents under its Management Improvement Program during the 1971-73 biennium developed a very detailed planning manual.[212] The manual has been distributed widely by the Management Division of the Academy for Educational Development. The Management Division of AED has since 1971 distributed a number of publications relating to planning procedures, beginning with one that listed 148 ways for colleges and universities to meet the financial pinch.[213] In 1972 it distributed an adaption of Paul C. Reinert's essay on survival for private higher education, <u>To Turn the Tide</u>. Father Reinert's essay called for efforts to begin within the institution and called upon the president to take initiative.[214] We list some of the other more helpful publications of AED in the footnotes.

Planning is emphasized heavily in the report of the National Commission on the Financing of Postsecondary Education. One of the concluding chapters of that report is directed toward developing better procedures for institutional costing and data reporting. The Commission noted as one of its objectives, improving institutional accountability, "institutions of postsecondary education should use financial and other resources efficiently and effectively and employ procedures that enable those who provide the resources to determine whether those resources are being used to achieve desired outcomes."[215]

Howard Bowen and Gordon Douglass have taken the planning procedure another step by making a detailed analysis of cost and outputs of instructions at a hypothetical small liberal arts college.[216] Charles Benson and Harold Hodgkinson have also provided their analysis of how efficiency in colleges and universities can be enhanced. Subtitling their volume "New Strategies for Financing Social Objectives," they have analyzed the need for skilled manpower, ways of allocating resources--including a reference to Planning Programming Budgeting Systems, and a review of financing patterns. One chapter deals more particularly with ways of achieving efficiencies and summarizes the variety of approaches that have been used to achieve more efficient planning and programming.[217]

The Committee for Economic Development in its statement on the management of financing colleges issued in late 1973 called for colleges and universities to employ more effective management procedures and suggested that colleges might move toward using management principles and techniques that have proved effective in business and government.[218] A series of articles in the Journal of Higher Education in January, 1974 explores some of the management procedures, and individual authors argue both for and against some of the applications generally being advocated.[219] Speaking to the Association for Institutional Research in May, 1974, Harold Howe II, the Ford Foundation's Vice President for Education and Research, however, warned that the problem-solving power of new management techniques has been over-sold, and one of the most limiting aspects has been in the area of values.[220] And at a meeting sponsored by the Educational Testing Service, another foundation executive, warned that it was not "unreasonable to fear that higher education will buy the productivity of instructional by selling part of its soul" and warned against ignoring human qualities in higher education in the search for greater efficiency.[221]

One gains the impression that techniques are abundantly available for more efficient use of resources and space. What is lacking is any clear evidence that educational quality is influenced in one way or another by changes in methodology and approach. Perhaps it is impossible to secure such evidence; and perhaps the debates will continue to go on regarding how much "efficiency" can be effected without reducing educational "quality."

Notes

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[14] John A. Crowl, "Some Public Colleges Face 'Austerity Operations' Despite $7-Billion in State Funds for 1970-71," Chronicle of Higher Education, V (October 12, 1970), pp. 1,4.

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[20] cf. Alan Pifer, "The Responsibility for Reform in Higher Education," The Report of the President, Annual Report of Carnegie Corporation of New York, 1971 (New York: Carnegie Corporation of New York, 1971), pp. 3 ff.

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[23] John A. Crowl, "Fiscal Crisis, Need for Academic Reform Called Inseperable," Chronicle of Higher Education, V (May 3, 1971), p. 3.

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[26] Larry A. Van Dyne, "Some Budget-Cutting Colleges Firing Tenure of Professors," Chronicle of Higher Education, VI (November 15, 1971), p. 6.

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